The Economist

20010203

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

NEWS ANALYSIS

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery

DIVERSIONS

RESEARCH TOOLS

CLASSIFIED ADS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Advertisement

Print Edition February 3rd 2001

Is there life in e-commerce?
As the dot.com leaders grow up they start to look more like regular companies, albeit very good ones. They should be valued the same way ... More on this week's lead article

News Summaries
Business this week
The world this week

Leaders
Is there life in e-commerce?
Doctors in the dock
Gujarat's catastrophe
The legacy of Lockerbie
Uncle Sam in Colombia
Wishful thinking?

Letters
On juries, John Ashcroft, foxhunting, the South Sea bubble, California's power, coca in Bolivia, tall ships, disaster insurance, vaccination, tallymen

Special
Saying no to peace

United States
Compassionate conservatism takes a bow
The widening gap
California's power crisis
Sleepless nights
Lexington
Alan Greenspan, fiscal fiddler
Good blood
Prescription drugs
No panacea
Football
Rage v Maniax
Cuban spies
Stingless Wasps

The Americas
Fox and Bush, for richer, for poorer
Chile
Democracy's test
Batlling in Uruguay
Globalisation trashed in Brazil
Ecuador
Collateral damage
Peru
A nightmare returns

Asia
The sorrow of India
Indonesia
Getting worse for Gus Dur
Thailand's elephant music
Myanmar
Signs of a thaw?
Australia
To arms
Our Malays are happier than yours

Europe
Permanent revolution for Europe's Union?
Nice Uncle Gerhard and the little 'uns
Germany
A new type of farming?
Charlemagne
Vaclav Klaus, an unusually combative Czech
That's Italian poster politics, signori
Turkey and the Armenians
That controversial G-word
Russia's regional bosses can dig in
France
Strike to retire

Britain
The return of the bodysnatchers
The Mandelson affair
The worm turns
Norfolk
The Hamptons, only colder
Bagehot
The narcissism of small differences
Job losses
Steeled
Regional government
For England and Tony Blair
Just a bite
Care for the old
The Scottish tail

Articles flagged with this icon are printed only in the British edition of *The Economist*

International
The long trail twisting from Lockerbie
Zimbabwe
Blunt weapons
Angola
Hearing complaints
Iran
Khatami's cautious broom

Advertisement

Previous print editions
Jan 27th 2001
Jan 20th 2001
Jan 13th 2001
Jan 6th 2001
Dec 23rd 2000
More print editions and covers »

Subscribe
Subscribe to the pri
Or buy a Web subsc
full access online
RSS feeds
Receive this page by

Advertisement

Business
Only fakirs need apply
Defence contractors
Arms across the sea
Russian media
Bad vibes
Face value
Stretching the plaid
Cutting back at Chrysler
Soft drinks
New formula Coke
Hollywood on the Vltava

Business Special
We have lift-off

Finance & Economics
Adopt brace position
The Bank of Japan
Coming out of denial
Steal industry
Bananas
Fruit suit
Economics focus
Debating the minimum wage
Thailand's banks
Still hurting
A pocketful of posies
European stock exchanges
Taking one's Easdaq
Morgan Stanley
Man overboard
German finance
Three into one will go

Science & Technology
Puncturing AIDS
Arsenic and old brakes
Earthquakes in India
Worse to come?
AIDS vaccines on trial

Books & Arts
It's mourning in America
Pencil power
American politics
The metropolitan provincial
The staff of life
Sundance screenings
Literary history
Nemesis
Jazz
Hit men
Talkin' the talk
Video art
Bathhouse babe
Literary biography
First, a poet

Obituary
Marie-José

Economic Indicators
OUTPUT, DEMAND AND JOBS
COMMODITY PRICE INDEX
UNDERGROUND ECONOMY
PRICES AND WAGES

Financial Indicators
MONEY AND INTEREST RATES
IMMIGRATION
TRADE, EXCHANGE RATES AND BUDGETS
STOCKMARKETS

Emerging-Market Indicators
BANKERS
FINANCIAL MARKETS
ECONOMY

Advertisement

Classified ads

Sponsors' feature About sp

Jobs
Senior Operations Manager, Financial Markets
Terms of Reference IFC Private Enterprise Partnership Background ....

Business / Consumer
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Business! Profit....

Property
WORK FROM HOME SALES REP. NEEDED A SALES REP IS NEEDED TO BE WORKING FROM HOME FOR EGOBOLIC TIMBERS INT'L. YOU....

Jobs
Tenure Track Position Available
Assistant Professor of Geography Tenure-track Assistant Professor position, starting....

Tenders
Invitation for Prequalification
Hashemite Kingdom of Jordan Ministry of Finance for Supply and Implementation ....

Copyright © The Economist Newspaper Limited 2007. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Business this week

Feb 1st 2001
From The Economist print edition

American slowdown

American consumer confidence hit a four-year low after suffering a steep dive in January, according to the Conference Board. GDP in the fourth quarter of 2000 rose a measly 1.4% at an annual rate, confirming that **America's economy** has slowed severely, but GDP for the year rose an impressive 5%. The Fed appeared to heed the bad news by cutting interest rates by half a percentage point.

See article: What kind of landing for America?

Out of the jungle?

Amazon, the world's leading online retailer, warned that sales in 2001 would be lower than expected and announced that it would cut its workforce by 15%. However, it told investors that it had lots of cash and promised profitability in the fourth quarter.
See article: Is there life in Internet commerce?
Bouygues Telecom, France's third-largest mobile-phone operator, sided with the sceptics over third-generation mobile licences. It withdrew from a French government "beauty contest" just before the deadline citing "unreasonable financial risks". This leaves just two companies prepared to pay the FFr32.5 billion ($4.6 billion) asking price and four licences to sell.
See article: The tide turns against 3G

Walt Disney, perhaps recognising a Mickey Mouse business when it sees one, stepped back from the Internet. It announced the closure of its portal, Go.com, and said that it would take the separately quoted Disney Internet Group back into the parent company. The company blamed a dearth of online advertising.

Disney monitored rescue efforts by **Kirch Group** for **EM.TV**, a rival German TV-production company. Kirch was reportedly ready to make an offer for EM.TV's option to buy 25% of **SLEC**, owners of the TV rights for Formula One motor racing. Heavily indebted EM.TV already owns 50% of SLEC. Disney has long coveted EM.TV's Jim Henson Company, maker of the Muppet Show, and could jump in if things go wrong.

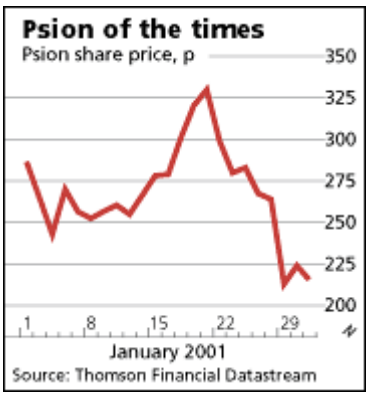
Bertelsmann, a German media group, said that it would introduce subscriptions by the summer for Napster, a free (for now) Internet music-sharing service. Bertelsmann surprisingly joined forces with the company last year while it and other music firms were pursuing Napster through the courts for alleged copyright infringement. Bertelsmann also announced that it had appointed **Joel Klein**, former head of America's antitrust efforts, to a top job. He may come in handy for convincing regulators that a merger between the German firm and EMI should proceed.

The European Commission said that it was investigating **price fixing** by the five big music companies—Vivendi Universal, Sony, EMI, AOL Time Warner and Bertelsmann—and some big retailers. The companies settled a similar case in America last

year. The big noises control 77.5% of music sales worldwide.

Motorola, an American mobile-phone equipment maker, pulled out of a joint venture with Psion, a hand-held computer company, as part of cost-cutting measures. Despite being jilted Psion said it would continue with plans to develop a palm-top computer-communicator.

Nokia, the world's leading maker of mobile phones, lowered its estimate of worldwide handset sales in 2001; it has cut its prediction of 550m sales to perhaps as low as 500m. The company expects slowing sales growth in the first quarter and blamed America's cooling economy.



Souperpower

Campbell, the dominant force in America's (wet) soup market, agreed to spend $1 billion to acquire (dry) soup and sauce lines from **Unilever**, an Anglo-Dutch consumer-goods conglomerate, gaining an instant entrée into these European markets. Unilever's divestment was a condition imposed by Europe's regulators for the company's takeover of Bestfood.

DaimlerChrysler announced swingeing plans to combat losses at its American business. It will close six plants and get rid of 26,000 employees, 20% of its workforce. The company will reduce capacity by around 15%. It also said it would reconsider an engine-making joint venture with BMW.
See article: Chrysler's woes, contd

Third time lucky?

Lloyds TSB, a British bank, made a third bid for **Abbey National**, a rival. Lloyds' £19 billion ($28 billion) offer was initially rebuffed by Abbey. Britain's competition watchdogs may not like it either.
See article: Lloyds TSB bids for Abbey National

Charles Schwab, an American retail stockbroker, told its 26,000 staff that up to half of them would have to take unpaid leave for three Fridays in the weeks ahead to cut costs. A slowdown in trading caused profits to fall 15% in the most recent quarter. The company also announced that, jointly with rival TD Waterhouse, it is acquiring Aitken Campbell, a British market maker.

ING, a Dutch bank, sold the American end of its investment-banking operation, ING Barings, and Furman Selz, a brokerage, to rivals **ABN Amro** for $275m. ING's plan for a worldwide investment bank—not one that had much worried the "bulge bracketeers"—has been abandoned.

Morgan Stanley Dean Witter, an American investment bank, decided to jump on the rebranding bandwagon. In an audacious (and of course costly) attempt to revitalise and renew its corporate image, it has dropped "Dean Witter" from its name.

Nasdaq, America's high-tech stock exchange, has been seeking a high-profile European partner but seemed ready to settle for something more modest. It was said to be near an agreement to take a stake in Brussels-based **Easdaq**, Nasdaq's rather less successful European equivalent.
See article: Nasdaq looks to Europe

Tiny Qatar, chosen as host of this year's ministerial meeting of the **World Trade Organisation**, has assured anti-globalisation protesters that they will be welcome.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The world this week

Feb 1st 2001
From The Economist print edition

Indian devastation

Some 25,000 people or more are thought to have died in an **earthquake** in Gujarat state, in western India. Two large towns, Bhuj and Anjar, were almost flattened. Pakistan put aside its enmity with its neighbour and contributed to the relief effort.

EPA

See article: Earthquake in India
President Abdurrahman Wahid of **Indonesia** faced criticism in parliament about financial matters and also demonstrations on the streets.
See article: Wahid under fire in Indonesia

A rerun of the disputed contests in **Thailand**'s general election of January 6th deprived the Thai Rak Thai party of Thaksin Shinawatra of its overall majority. It formed a coalition government with two other parties.

A Chinese government spokesman said Hong Kong would not be allowed to become a base for the outlawed **Falun Gong** cult. In the former British colony now ruled by China, the cult is legal.

Gloria Macapagal Arroyo, who took over the presidency of the **Philippines** with the support of the army, said she would "crush" plotters against her government. Joseph Estrada told a meeting of his supporters in the capital, Manila, that he was still the elected president.

Yoshiro Mori, **Japan**'s prime minister, apologised to the Diet for a string of recent scandals.

Faith, hope, charity

President George Bush announced plans to set up a new White House office to distribute billions of dollars over ten years to religious groups for charitable and social work. Critics claimed that this would be an enormous breach in the constitutional separation between church and state.
See article: Churches and temples to the rescue

Mr Bush's two most controversial nominees for cabinet posts, **John Ashcroft** for attorney-general and **Gale Norton** for interior secretary, were both confirmed by the Senate.

Colombia's troubled peace process was reprieved: President Andres Pastrana agreed to extend the life of a "demilitarised zone" used as a haven by the FARC guerrillas, but only for four days, to allow further talks about talks. Earlier, a man alleged to be a FARC deserter had hijacked a commercial flight from the zone to Bogota.
See article: Ecuador hurt by Colombia's wars

AP

Alan Garcia, a former president remembered for his disastrous populist rule, returned to **Peru** after almost nine years in exile, and immediately launched his campaign for the presidential election due in April.
See article: The return of Alan Garcia to Peru
In Chile, a judge ordered that **General Augusto Pinochet** should be tried on charges of murder and kidnapping. The former dictator was officially notified of the order, and placed under house arrest, despite efforts by his supporters to block the notification.

See article: Pinochet under arrest in Chile

Anti-globalisation **protesters**, meeting in the Brazilian city of Porto Alegre, agreed to launch a campaign against the proposed Free-Trade Area of the Americas.

See article: Anti-globalisation and Brazil's left

End of the trial

The **Lockerbie trial** in the Netherlands ended with the three Scottish judges finding one of the two Libyan suspects, Abdelbaset Ali Mohmed al-Megrahi, guilty of murdering 270 people when a PanAm plane blew up over Lockerbie in December 1988. Mr al-Megrahi is expected to appeal. If that fails, he will be jailed for life in Scotland. His co-defendant was found not guilty.

See article: Lockerbie suspect found guilty

Congo's new president, **Joseph Kabila**, set off on a mission to bring peace to his country. He had meetings with the South African and French presidents, America's secretary of state and the UN's secretary-general.

Some 30 people were killed in two days of violence between the Tanzanian police and anti-government demonstrators in **Zanzibar**.

A court in **Iran** found 15 secret-service agents guilty of involvement in the murder of four dissidents in 1998. Three of the agents were sentenced to death.

See article: Iranian intelligence agents convicted

Syria and Iraq signed a free-trade accord, paving the way for the abolition of customs duties. Iraq signed a similar deal with Egypt two weeks ago.

Tuning the motor

France's president, Jacques Chirac, and **Germany**'s chancellor, Gerhard Schröder, met for dinner in Strasbourg to try to patch up differences in their attitudes to the future of the European Union that emerged sharply at the Union's summit in Nice in December. They agreed to keep meeting.

See article: The European Union's great ambitions

EPA

Public-sector workers in **France** went on strike for more pay and to try to stop a proposed rise in the official retirement age.

See article: French strikes about pensions

Turkey was enraged at a decision by France's president to sign into law a bill describing the massacre of Armenians in Turkey in 1915 as "genocide". The Turkish government responded by scrapping a deal for modernising Turkish aircraft worth $205m.

See article: Turkish twitchiness about Armenians

It looked as if **Russia**'s president, Vladimir Putin, might at last have succeeded in ousting one of his most venal governors, Yuri Nazdratenko of the far-eastern Maritime Territory, who was reported to be in hospital. So was Russia's former president, Boris Yeltsin, who celebrated his 70th birthday on February 1st with an "acute viral infection".

See article: Controlling Russia's far-flung regions

Yugoslavia's president, Vojislav Kostunica, said that his predecessor, **Slobodan Milosevic**, was in "self-imposed detention" in his house in Belgrade.

John Bruton, leader of **Ireland**'s opposition Fine Gael party, resigned after losing a vote of confidence among his colleagues.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Is there life in e-commerce?

Feb 1st 2001
From The Economist print edition

Get article background

LAST year's American football championship, the Super Bowl, marked the peak of dot.com mania, with 17 dot.coms paying up to $3m each for 30-second television spots. This year's event marked its nadir. One ad for a brokerage pictured a dot.com ghost town, with a faded TieClasp.com sign, abandoned PimentoLoaf.com offices and something that looked like the Pets.com sock puppet lying crumpled in the dust. "Invest wisely", warned the broker. Good advice. What does it mean?

Valuing dot.coms has been a well-nigh impossible task from the beginning. Had you decided that Yahoo! could not possibly be worth $1 billion in 1997, as the market then said, you would have missed a three-year run that took it to more than 100 times that figure. But had you decided to believe the market last spring and bought Yahoo! then, you would now have lost 80% of your money.

Meanwhile, in the real world

Through it all, Yahoo! has grown steadily, becoming a dominant web media company more or less according to plan. So too for eBay, the web auctioneer. Throughout the rise and fall of the dot.coms, analysts have been forced to come up with increasingly other-worldly formulas to justify current prices, to say nothing of their targets. Investors have been tossed like corks in a storm.

Now comes particularly hard-to-digest news from Amazon, the biggest dot.com and among the most controversial thanks to the massive losses it has incurred as it has grown. As its many critics have warned, its "get big fast" philosophy made it too big, too soon: it is closing two facilities and laying off 1,300 employees. But in the same announcement it promised to turn a profit by the end of the year.

Note that it was operating profit, not net profit, that Amazon was promising, so debt payments, options costs and potential losses from investments may keep the bottom line in the red for a while, even on the firm's own projections. But considering that for much of its existence it has faced doubts over whether it could sell even books, to say nothing of more complex items, at more than they cost when all the picking, packing and shipping was factored in, Amazon is answering its harshest critics. About one key thing, it was right: it does seem to have found a way to make money while continuing to grow (although not nearly as quickly as it once did). It is not going to run out of money and go bust.

Does that make its shares a good buy? As the article "Amazon, Yahoo! and eBay grow up" argues, the three big dot.com leaders are, by normal measures, extraordinary businesses. They have grown quickly, built global brands in record time, and count their customers in the tens of millions. Two of the three have even made decent sums while doing so. But at the same time as they have expanded they have become less perfectly virtual and more like ordinary firms. At some point that ought to mean more ordinary valuations.

Yahoo! has 3,260 employees and rises and falls with the advertising business like other big media firms. As eBay expands into products such as cars it must enter into joint ventures with bricks-and-mortar firms, splitting profits. This is even more true for Amazon, which looks more like a bricks-and-mortar company by the day. It has built warehouses around the world and staffed them with an army of temporary workers. Where four years ago it took up two floors of a building on one of the worst streets in Seattle, today it sprawls over the city, occupying a former hospital and seven other buildings. All three companies are slowing down as they get larger, moving from triple-digit growth to mere double-digits.

Amazon uses technology spectacularly well, but so does Wal-Mart. This is why analysts are increasingly thinking of it as a “best of breed retailer”, something of a back-handed compliment. It is nice to be best of breed, but retailers trade at very different multiples to dot.coms, even today. Wal-Mart trades at about 26 times future earnings. Apply the same multiple to Amazon (assuming operating margins of 10% by 2004) and it would have to increase its domestic business by 50% a year and its international business by nearly 100% a year to justify its current price. Given that it predicts its overall growth will slow to 20-30% this year, that would be a stretch.

Or do the calculation another way. Big American retailers today tend to trade at a valuation of about one times 2001 revenue. Amazon is predicting that its revenues this year will be $3.3 billion-3.6 billion. Its market capitalisation is more than $6.5 billion. That would suggest that despite falling 85% from its peak, it still has a way to go.

But that is to value it exactly as a traditional retailer. Although Amazon is certainly more like one than it may have originally set out to be, there are still clear differences. Because it holds all its inventory in centralised warehouses, the firm turns it over much faster than bricks-and-mortar retailers do. With rapidly depreciating products such as consumer electronics, that is a huge advantage. Low inventory as a percentage of sales also helps it grow economically because costs tend to scale with the number of units shipped, not their value. This may allow it to make money in categories that are thought of as low-margin. Thanks to the Internet, its potential customer base continues to grow at impressive rates.

Amazon argues that its main advantage is that it can grow without paying to build new physical stores. This should give it a lasting advantage in return on capital employed. But it is notable that so far it has had to build a local warehouse for each new country it has entered. As long as its ability to serve, say, all of Europe from its German warehouse depends on forces outside its control, such as the efficiency of European transportation firms, it cannot expand as cheaply as it would like. Amazon was built on the premise that online retailing offered extraordinary advantages over the traditional model. The jury is still out on some of these, but even where they are showing up they look rather less amazing in the flesh.

The same is true to a lesser degree of Yahoo! and eBay. Yahoo! looks more like a media company every day, especially now that AOL Time Warner has redefined the genre. At its root eBay is just a marketplace, and they are rarely valued very highly in the bricks-and-mortar world. The fact that both are built on the Internet implies growth rates and efficiencies the physical world rarely sees. But eventually the distinctions between the two worlds begin to blur. The dot.com leaders may well be among the great companies of the future, but increasingly they will not be thought of as a class unto themselves. Nor, one suspects, will their shares.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Doctors in the dock

Feb 1st 2001
From The Economist print edition

There is good, as well as bad, in the current spate of horror stories about Britain's doctors

ANOTHER day, another scandal in the British medical profession. On January 30th, a gruesome report was published into the removal of dead children's organs without their parents' consent at Alder Hey hospital in Liverpool. The hospital stockpiled thousands of hearts, heads and other assorted parts, and its chief pathologist lied to parents about the practice and falsified medical records (see article).

The report comes at a difficult time for Britain's doctors. Earlier in January, an official audit of the murderous career of Harold Shipman, a general practitioner, was published. He was convicted of killing 15 patients, but it looks as though the total may really be more than 250. Shortly, a government investigation will publish its findings into the "Bristol babies" affair, in which at least 90 children are thought to have died because of sub-standard care from surgeons and doctors. And there is the usual stream of newspaper reports of practitioners sexually abusing patients or fudging research results.

The kinds of malpractice splashed over the front pages are not new; the novelty lies in their reaching public attention. Britain's doctors are no more homicidal or contemptuous of their patients than they were in the past, but the climate they are operating in is changing. Paternalism, which allowed doctors to do what they want and leave the patients in the dark, is giving way to patient power. And, as light falls on hospitals and surgeries, it exposes some unpleasantness.

For American doctors, chastened by years of malpractice litigation and the strictures of managed care companies, the sort of authority and autonomy that British doctors have enjoyed—such as dealing with wayward colleagues through their own cosy General Medical Council (GMC)—is a distant memory. But things aren't what they used to be in Britain. In many areas of life outside the surgery and the hospital—shopping, banking, government services, for instance—power is shifting from the producer to the consumer.

In health care, some of the drive for reform is coming from the medical profession itself. Doctors are increasingly willing to blow the whistle on each other, which is in part why the Bristol and Alder Hey inquiries have arisen. The GMC, feeling the pressure for change, is looking at new ideas such as greater lay representation, streamlining its disciplinary procedures and requiring regular skills assessment for doctors.

But much of the impetus to clip the doctors' wings comes from the government, which is keen to promote itself as a health-care moderniser and champion of patients' rights. Each malpractice inquiry brings new recommendations for reform, and the government's new action plan for the NHS includes further proposals for regulation.

British patients tend to show their doctors more deference than do America's "health-care consumers". But that is changing, too. Pressure from parents, as well as honesty from doctors, led to the Alder Hey inquiry. The Internet, which offers people access to medical information that was once the preserve of the professionals, and which helps protest groups organise and lobby, is giving patient power a push. And the government, which wants to add momentum to this movement, has promised more say to patients though local forums and better ways to register their complaints.

Hope from the horror

There are dangers in this shifting balance of power. More regulation of doctors threatens to tie up in red tape an already overworked and underpaid profession, and to put off the clever, curious types who have taken up medicine in the past. More information does little good if patients do not have much room to make choices, which is the case for most of those treated by the National Health Service. And no one benefits if the trust at the heart of the traditional doctor-patient relationship is shattered.

But more information will create a demand for choice; and effective medical treatment is more likely where doctors bother to listen to their patients, and patients know enough to ask the right questions, and demand truthful answers. The changes being forced on the NHS are likely to produce a better service in the future. Today's horror stories are a sign that things will be better tomorrow.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Gujarat's catastrophe

Feb 1st 2001
From The Economist print edition

Was it worse than it need have been?

Reuters

WHEN earthquakes strike and lives are lost on a terrible scale, a middle way must be found between two kinds of false consolation. One is to imagine that nobody was to blame, to say that "natural disasters" cannot be prevented, and can only be endured. The other is to say that the deaths were all the fault of the system and the people who run it, that everything would have been all right if only the building regulations had been adequate, if the inspectors had not been corrupt, if the rescue services had been properly equipped and prepared, and so forth. The truth is, an earthquake in a country as poor as India is always going to be an unspeakable tragedy. At the same time, there are things that even poor countries can do to save lives in these circumstances—things that they often neglect to do.

At the epicentre of the Indian earthquake, some buildings remain intact surrounded by others that have collapsed, demonstrating, as the Turkish earthquake of 1999 also showed, that the design and quality of buildings are crucial. That is the main reason why earthquakes in rich countries kill fewer people than earthquakes in poor ones. The Kobe earthquake of 1995 occurred in one of the most densely populated areas on earth, but still killed "only" 6,400 people, rather than the 20,000 or more being estimated this week to have lost their lives in a remote and relatively unpopulated area of India. The collapse of many of Kobe's older buildings, while newer ones survived, made it clear that the death toll would have been far greater had Japan not imposed strict regulations on the construction of new buildings.

But it is not always that simple. Gujarat has a history of earthquakes, and was known as an area where strict building codes ought to be applied. But the growth of the urban population has seen the construction of many cheap three- and four-storey apartment buildings where corners have been cut. It is not only the private sector that has skimped. Four hundred children were crushed in a public building. The problem is that the demand for cheap housing is high. Even though Gujarat is one of India's four richest states, with a large middle-class population, poverty at the bottom runs wide and deep. Estimates say that making new buildings earthquake-resistant adds 10-25% to the cost: that gives plenty of incentive to economise. Because there has been no catastrophic quake in India for 50 years, the problem has been easy for politicians to ignore. No longer. Properly enforced rules are needed, and maybe now will be forthcoming.

Until next time

Given the grave and continuing risks to more highly populated parts of India, such as Delhi (see article), it is also important that the Indian government and its friends abroad concentrate on reducing risk and speeding their response in the next such emergency. No doubt there is a limit to what can be done in such poor regions; that does not mean nothing can be done. Too little effort has been spent on pinpointing areas of greatest risk around the country. In fact, some seismologists are saying that the Indian government is making this task needlessly difficult by suppressing data, citing security concerns in border regions.

Other things could be done as well. India lacks a proper rapid-reaction team to deal with such disasters. In Gujarat it proved slow to mobilise the best resource that it does have—one of the world's biggest, and most professional, armies. Experience suggests that manpower is not a resource that can usefully be provided by other countries. It takes too long for such assistance to arrive. By as little as 12 hours after a serious earthquake, the chances of finding trapped victims alive has fallen to almost nothing. Help has to

be local, or at least regional, which in the case of India would require it to co-operate with Pakistan. International money would be much better deployed helping to build up national rapid-response centres in all earthquake-prone areas, as well as supplying aid aimed at helping in the first few days after the quake: food, water, shelter, medicine and doctors.

Predictions suggest that by 2025 more than 5.5 billion people worldwide will live in cities, and a large proportion of them close to regions with seismic hazards. In the next century it is statistically inevitable that powerful earthquakes will assault several large urban areas. The annual fatality rate from quakes is almost certain to rise in the next two decades, the more so if nothing is done. Builders and planners in areas at risk should keep the awful events of recent days in mind.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The legacy of Lockerbie

Feb 1st 2001
From The Economist print edition

The guilty verdict delivered by three Scottish judges against one of two Libyans accused of the 1988 bombing must not be the end of the case

EPA

CONSPIRACY theories have swirled around the 1988 bombing of PanAm flight 103 ever since the plane exploded over the little town of Lockerbie, in Scotland, killing 270 people. Responsibility for this horrific act was claimed by no one, and there have always been doubts about which government or terrorist group planted the bomb. The British and American governments have also been less than frank. They often appeared to know more than they would say, and they seemed to point the finger at Muammar Qaddafi's Libya only after their investigation of a Syrian-backed Palestinian terrorist group became impolitic during the Gulf war. When Colonel Qaddafi agreed in 1998 to send two Libyans accused of the bombing to a special Scottish court in the Netherlands, many suspected that the two governments, weary of imposing sanctions against oil-rich Libya, had struck a secret deal with the colonel to find a way to drop them.

In the event, the unanimous verdicts this week of three Scottish judges, finding one of the two defendants guilty and freeing the other, have vindicated the dogged efforts of the victims' families to cast light on these murky events, and to achieve some semblance of justice. Though Britain and America may now hope to put the entire matter behind them, the court's verdict raises as many questions as it answers. These must be pursued, however politically inconvenient.

The most pressing question, of course, remains: who ordered the bombing? It beggars belief that Abdelbaset al-Megrahi, the Libyan intelligence agent found guilty of mass murder by the court, acted alone. If his conviction is upheld on appeal, the most obvious suspect to pursue next is Colonel Qaddafi himself, who rules Libya with an iron hand.

This seems to present Britain and America with a quandary. UN sanctions against Libya have been in place since 1992. They seem to be hurting American and British companies as much as Libya which, with generous oil revenues, has often found ways around them. Other Arab states have refused to treat Libya as a pariah. As Colonel Qaddafi has moderated his conduct and rhetoric, many other countries have also grown restive at the idea of continuing Libya's isolation. Rescinding the sanctions, which have been suspended for almost two years, and normalising relations with Libya now makes good political sense for both Britain and America. But is it possible to have normal relations with a regime whose leader is under investigation for mass murder?

Lift sanctions, lay charges

The answer is an awkward yes. Sanctions are usually subject to a law of diminishing returns and have probably achieved all they can in moderating Libyan conduct. Sanctions now hurt not Colonel Qaddafi but the Libyan people, and they have suffered enough for a leader they did not freely choose. The first responses of Libya's government were unco-operative, but if it later meets most of the other conditions laid down by the UN, including admitting responsibility in the wake of a guilty verdict sustained on appeal and paying compensation, then sanctions should be permanently lifted.

The way would still be open to pursue a case against Colonel Qaddafi or, if enough evidence were produced, eventually to charge him. It would be possible to have almost normal relations with Libya and yet continue to treat its leader as a criminal suspect. Indeed, that might be the best way to undermine his standing at home.

In addition to opening the way to a possible prosecution of Colonel Qaddafi, the Lockerbie trial has achieved something else. By carefully considering 85 days of evidence from 230 witnesses and delivering a meticulous 82-page verdict which looks inconvenient for all the governments concerned, the court's three judges have shown that professional jurists can run a fair trial, free from political influence, even in the most emotive and contentious of cases—a harbinger of hope for supporters of a permanent international criminal court.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Uncle Sam in Colombia

Feb 1st 2001
From The Economist print edition

George Bush has inherited a controversial plan to fight drugs in Colombia. He should turn it into a state-building programme, commanding broader support

Get article background

OF ALL the foreign-policy quagmires President George Bush has inherited, few are as muddy as the mess in Colombia. Alarmed by rising coca cultivation and by the strength of the leftist guerrillas in a country that produces most of the world's cocaine, the Clinton administration boldly stepped into Colombia's complex internal conflicts. It granted $1.3 billion in mainly military aid last year for "Plan Colombia", a wider bundle of security and development projects drawn up by President Andres Pastrana's government. Should Mr Bush continue with, scrap or amend this policy?

Most of the American aid is meant to be spent on training three new army battalions and equipping them with helicopters. Their mission is to stop the FARC, the Revolutionary Armed Forces of Colombia, from hindering anti-drug operations in Putumayo, on Colombia's border with Ecuador, where roughly half the coca crop is grown. Two of the battalions are already protecting police spraying the coca plantations with herbicides. It is also hoped that, if the FARC can be denied drug income, it will be more inclined to make peace.

Several things have changed since the plan was first mooted. First, the United States' aid has been widely seen as a crude intervention in its Latin American backyard. As a result, European governments, which Mr Pastrana had unrealistically hoped might stump up some $2 billion in aid for social and development projects, aimed at providing alternatives to coca, have offered only $280m—leaving Plan Colombia looking unbalanced.

Second, the peace talks with the FARC launched by Mr Pastrana in 1998 have stalled. As the FARC has continued its tactics of kidnapping, extortion and attacks on small towns, public support for the talks has plunged. This week their future hangs in the balance: Mr Pastrana has delayed until Sunday a decision on ending or extending the life of a "demilitarised" zone for the guerrillas (ie, a haven all their own), as he seeks gestures from the FARC. Third, right-wing paramilitaries, often also linked to drugs, have become the fastest-growing military force in Colombia. In a cold-blooded manner, they attack civilians in guerrilla areas, and often act with the collusion of army officers—and with growing public support. Lastly, neighbouring countries worry that Plan Colombia will push refugees, violence and drugs into their countries. That is already happening in Ecuador, which is economically and politically fragile (see article).

So far, Mr Bush has expressed support for Plan Colombia. But critics worry that he may be sucked into the quagmire, perhaps even choosing to send troops. In fact, a greater temptation may be to walk away, or to narrow the plan to anti-drug aid to the police, as some Republicans favour.

All three approaches would be a mistake. The United States—and Europe—do have responsibilities for peace in Colombia. After all, their drug consumers unwittingly finance both the FARC and the paramilitaries.

The best course is to mould Plan Colombia into a more balanced policy, more clearly aimed at strengthening the democratic state. That means continuing to help Colombia to make its armed forces more efficient, more professional and more respectful of human rights, but it also means a police and judiciary able to give security to citizens. Colombia, in turn, has to make a more serious effort to tackle the paramilitaries—though critics of Plan Colombia would do well to note that to do so requires stronger, not weaker, armed forces.

The unwinnable war

At the same time, the United States should recognise that aerial spraying of other peoples' fields with herbicides is no substitute for failing to stop its own citizens from taking drugs. Manual eradication, backed by social development, may be a better alternative. But Europe should be under no illusions: alternative development requires lots of money.

In truth, Plan Colombia is bound to fail if it is just seen as a war on drugs: any "victory" in wiping out Putumayo's coca will simply make the industry move, not disappear. But any aid that helps Colombia and its neighbours achieve peace and strengthen democracy is money well spent. The drug war still looks unwinnable—but at least some of its battles can be made less costly to the countries where they are fought.

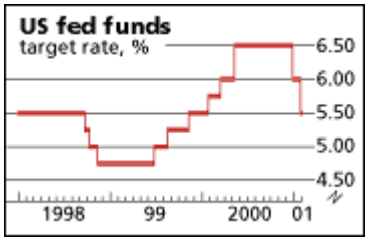
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Wishful thinking?

Feb 1st 2001
From The Economist print edition

Preventing a recession, if one is on the way, may be beyond the Fed

Get article background



ON THE ground floor of the Federal Reserve building in Washington, DC, is an electronic game which tests a visitor's skill at setting interest rates. You decide whether to tighten or loosen monetary policy in response to events such as rising inflation, a stockmarket crash or higher unemployment. Get all the answers right and the machine declares you ready to be appointed chairman of the Fed. In real life, the correct answer is rarely so clear: huge uncertainties about when and by how much to change interest rates cloud the calculations—and never more so than now. As the American economy lurches from a breathtaking boom to what some fear may be slump, the Fed is cutting interest rates with unusual zeal. Will that be enough to avert recession?

At its open-market committee meeting on January 31st, the Fed cut its federal funds rate by another half-point, to 5.5%. Following its surprise rate cut on January 3rd, this means that rates have been cut by a full point within the past month—the biggest single-month reduction in interest rates since 1984. The Fed's latest move follows new evidence that the American economy is slowing more sharply than expected. GDP grew by an annualised 1.4% in the fourth quarter of last year, down from over 5% in the first half. In his testimony to Congress last week, Alan Greenspan, the Fed's chairman, warned that growth would be close to zero in the first quarter. Some economists now fear output may even contract. Manufacturing is already in recession, and in January consumer confidence plunged to its lowest for more than four years (see article). If consumer spending declines, a recession would be inevitable.

The latest data suggest that the Fed is probably right to cut interest rates. But are financial markets and most economic commentators right in their faith that aggressive easing by the Fed can do the trick? They believe that the American economy will experience no more than a short pause in growth in the first half of this year before bouncing back in the second—a strong "V-shaped" recovery—thanks to cuts in interest rates and taxes. In a speech last week, Mr Greenspan delighted the Bush administration by giving the green light to income-tax cuts (see article). But he rightly warned that fiscal policy works too slowly to be much use for steering the economy over the cycle. With inflation fairly tame, the markets see room for further interest-rate cuts.

Mr Greenspan is the most revered central banker in living memory, but if investors realised just how great a challenge he now faces, they might feel more nervous. Once an economy stalls, it is hard to arrange a soft landing. Monetary policy may work more swiftly than fiscal policy, but long lags are still involved. Interest-rate changes typically take at least six months to have any effect on demand and their full effect feeds through only after a year or more. So while interest-rate cuts can certainly soften a recession, they may be too late to prevent one entirely. Also, given that American households already have alarming levels of debt and negative rates of saving, cuts in interest rates may be less effective than usual in spurring new borrowing and spending.

An ABC of recessions

The only way that rate cuts might work swiftly is by encouraging a rebound in share prices. Since the beginning of January the Nasdaq has gained around 20%, and the widest stockmarket index 8%. Continued rises could help to restore household wealth and hence confidence. But there's the rub. Suppose the Fed does succeed in buoying share prices and consumer spending, and thereby steers around the recession—with the economy growing by around 2% this year, rising to 3% next year. That perfect "soft landing" would do little to reduce America's various economic and financial imbalances. The

debts of households and firms would remain alarmingly high. Share prices would remain overvalued: yes, they are still overvalued, despite last year's decline. And the current-account deficit would continue to loom large.

One day these imbalances will have to be addressed. If the Fed succeeds in preventing a recession today and economic confidence bounces back, that day will not merely have been postponed. In such circumstances the imbalances are likely to keep growing. In due course, that would put the economy at risk of an even harder landing than it is now.

When the new president and his team moved into the White House they found that the previous occupiers had, among other acts of vandalism, wittily removed the letter "W" from lots of computer keyboards. That letter may be in particular demand this year, and not just for use in the president's name. The V-shaped recovery the markets are counting on could turn out to be W-shaped, with a second, deeper downturn lying ahead. Better fix those keyboards right away.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Feb 1st 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Trial by jury

SIR—As a former federal prosecutor in Los Angeles, I am astonished to read that the acquittal rate for jury trials in England and Wales was 43% in 1999 ("Not guilty", January 13th). Even if juries are composed disproportionately of the elderly, young and unemployed, and these groups favour acquittal, this rate is still incredibly high. Also, the phenomenon where a jury, whether by bias or simple stupidity, acquits a defendant in the face of overwhelming evidence of guilt is an unlikely explanation unless jury service in Britain is now under the control of anarchists. Blaming jury trials for being slow because they involve lengthy arguments about the admissibility of evidence and require evidence to be explained in layman's terms also blithely supports the undemocratic idea that efficient conviction of those charged with crimes (a hallmark of dictatorships with notably low crime rates) should replace proof of their guilt under the rules of evidence.

All of these unconvincing justifications for restricting jury trials suggest that Jack Straw should be spending more money on recruiting, paying and training his prosecutors to win cases rather than claiming that stupid jurors are being duped by plausible criminals.

The bar is also to blame for treating the Crown Prosecution Service as a refuge for barristers who cannot succeed in private chambers. By contrast, obtaining a position as a federal prosecutor in America is a highly competitive process because, although the pay is less, the private bar and society at large view prosecutors as providing a critical and respected service to the community which translates into marketable trial experience if they return to the private sector. If the best and brightest young British barristers thought service to the crown as a prosecutor made career sense, the acquittal rate would plummet.

MARK HARDIMAN
Los Angeles

SIR—I am surprised that you do not approve of saving public money by restricting the right to jury trials for some "either way" offences. The most common of this sort of offence is theft of a sort that would attract a fine or a discharge. However, the defendant could elect for a jury trial with all the cost and delay that entails. Presumably, a limit would be set on the value of goods stolen or criminal damage incurred that would let magistrates adjudicate. Any perceived injustice could be appealed to a crown court judge sitting with two lay justices.

As a recently retired chairman of a West Midlands bench, I can assure you that lay magistrates are far better trained than any juror in decision making and are just as concerned as you to avoid vexatious decisions. Also, magistrates will send a case to a crown court if they feel that their powers of sentence are insufficient, even if the defence asks for the case to be disposed of summarily.

E.J. RUDGE
Kidderminster, Worcestershire

All for Ashcroft

SIR—I disagree with you about John Ashcroft ("The trouble with John", January 20th). You acknowledge Mr Ashcroft's qualifications for the post of attorney-general (eight years as attorney-general of Missouri,

his enforcement of laws with which he disagreed, etc) yet decide that this is really moot since a man like Mr Ashcroft (read conservative) really ought not to have even been nominated in the aftermath of such a close and bitter presidential election.

This seems disingenuous. First, George Bush received a higher percentage of the popular vote than Bill Clinton did in either of his two elections. Second, Mr Ashcroft voted against Ronnie White's nomination for Missouri's state Supreme Court (as did every Republican senator) because he believed that Mr White was soft on crime. If Mr Ashcroft can be labelled a liar and character assassin by you, I am sure he can take solace in the fact that neither Edward Kennedy nor Patrick Leahy have any hope of ever winning your endorsement for attorney-general in light of their treatment of Robert Bork.

JAMES DEMPSEY
Newtown Square, Pennsylvania

Job hunting

SIR—Fox hunting may be a significant cohesive force for rural communities, but drug dealing and organised crime are arguably cohesive forces for some urban communities (Bagehot, January 20th). Social cohesion cannot be used as a justification. Furthermore, it seems peculiar that you should support hunting with the protectionist argument that it will help retain rural employment. The decline of society and employment does not justify illiberal rural activities, just as it does not justify illiberal urban activities.

TOM HUKINS
Milton Keynes

SIR—Bagehot is misguided in his belief that the hunting vote in Parliament was a truly democratic affair. How does he explain the votes of so many Scottish MPs in a debate on hunting in England and Wales? It would be ironic if hunting were permitted by a less class-ridden Scottish Parliament therefore supporting an influx of hunting people and their money to the Scottish borders. Many Scots also see the writing on the wall for fishing, stalking and shooting, which are big earners for the Highland economy.

HENRY REID
London

Bubble economy

SIR—Your history lets you down when you compare Dean Kamen's "Ginger" to the South Sea bubble ("Much ado about Ginger", January 20th). There was no mystery about what the South Sea Company was supposed to do; it was set up to trade British goods with South America. In return for a trading monopoly from Parliament, it claimed that it would wipe out the national debt.

The scheme you were perhaps thinking of was one of the many other joint-stock companies floated in Exchange Alley at the time of the South Sea bubble, described best by Charles Mackay in his "Extraordinary Popular Delusions and the Madness of Crowds". An unknown genius put forward a prospectus for "A company for carrying on an undertaking of great advantage, but nobody to know what it is." He took £2,000 in five hours and then very wisely disappeared.

PAUL HORSNELL
Oxford

Power politics

SIR—Your analysis of California's power crisis turns fuzzy when you address its source ("A state of gloom", January 20th). The retail-rate freeze was enacted in the interests of, and at the behest of, the power utilities. They feared that deregulation would trigger catastrophic revenue collapse when competition became a reality. Short-term self-interest led the utilities to lock themselves into their current money-losing state.

California's politicians and regulatory authorities also helped to create this mess. As has often happened, they responded inadequately to the intense lobbying of the utilities. The "populism" that you blame is only a symptom of a much larger problem: perpetual dominance of Californian politics by utilities.

Hyper-democracy and the “not in my backyard” culture of California are not chance characteristics of the citizens that choose to live here. They are the inevitable outcome of years of pork-barrel politics and lack of leadership in the public interest by our politicians and regulators. New power construction is especially contentious because of a long history of expedient, short-term tactics by powerful utilities, with the acquiescence and support of regulators and politicians. The resulting lack of trust and respect cannot be blamed on consumers.

JIM BUKER
San Francisco

SIR—California has the most exercise-obsessed population and probably more gyms per square mile than any other state. So the answer to our energy needs seems obvious. Hook up miniature turbines to all the exercise bikes, treadmills and rowing machines, and direct the energy output into the overstrained grid. Little meters could even keep track of individual contributions which could then be credited to consumers.

ALEXANDRA GOLBY
Palo Alto, California

Supplanting coca?

SIR—While few would deny that Bolivia’s government has been successful in eradicating coca in the Chapare region, the success of the alternative-development programme is questionable. Pino Arlacchi (“Letters”, January 13th) of the UN Office for Drug Control and Crime Prevention claims that alternative development can be made to deliver a decent livelihood to ex-coca farmers. This is not borne out by a research trip that we made last year to Chapare and Yungas for a book on Andean agriculture.

Many ex-coca producers who are now engaged in the production of licit crops, such as bananas, pineapples and palmhearts, complained about fluctuating and low prices, partly caused by over-supply. For example, in 1986 there were 338 hectares of pineapple; by 1997 this had risen to 3,804 hectares. Overproduction meant that the market collapsed and farmers reduced the area cultivated to 1,660 hectares in 1999. Development specialists privately admit that alternative development cannot possibly offer a decent livelihood to most ex-coca growers.

Mr Arlacchi also refers to the potential of alternative development in Yungas. We saw little evidence of this. On the contrary farmers, who incidentally see the proposed eradication programme as an assault on Andean culture, complained that crops such as coffee are unable to thrive on the impoverished and steep slopes where coca is grown. The only evidence of successfully introduced coffee varieties is in the Caranarvi area, about 100 km north of Yungas and outside the designated 12,000 traditional coca-growing areas. The UN is guilty of self-delusion if it believes that alternative agriculture in Yungas is going to deliver a decent livelihood to ex-coca farmers.

JON HELLIN
SOPHIE HIGMAN
Oxford

Shipping news

SIR—You say that “the venerable Ocean Youth Club is no more” (“Tall ships, young crews”, December 23rd). That is technically correct but misleading. In January 1999, the club changed its name to the Ocean Youth Trust, aiming for a new image to aid fund-raising and heighten its public profile. A year ago, five new charities were formed to take over ownership and management of individual vessels on a regional basis; a sixth is being formed to purchase another vessel. We have had our problems but we are afloat.

DAVID THOMAS
OceanYouth, Trust South
Southampton

Disaster insurance

SIR—You ask what can be learned from El Salvador’s tragedy and rightly conclude that recovery from natural disaster may depend more on how well a vulnerable country has planned for the event than on

how much aid it gets ("Lessons from El Salvador's tragedy", January 20th). You also ask what small, poor and vulnerable states can do to make such acts of nature less devastating. In the case of the 32 small states of the Commonwealth and 12 other states with a population of 1.5m or fewer (four other beneficiaries are slightly larger), such planning can now include insurance for all outstanding financial liabilities for three years after the event.

At the Commonwealth Disaster Management Agency (CDMA) we have launched a scheme enabling these small states, when stricken by a range of defined natural disasters—including earthquake, hurricane, mudslide, tsunami, typhoon and volcanic eruption—to have any outstanding debt service and principal falling due (whether to official or private lenders) be repaid by insurers over the following three years. Small states often find their economies harder hit than was El Salvador's in the latest instance. For all those in this category, the new policy will provide rapid relief: insurers will pay up as soon as the scale of the disaster has been determined (by a recognised international meteorological office), whatever view the aid agencies take.

Our scheme has been welcomed by the World Bank as well as the by the Commonwealth's secretary-general and finance ministers. It will prevent a country going into default as a result of a natural disaster and will reinforce its standing in the eyes of lenders and rating agencies (important if it has to borrow to cope with the disaster). Above all, it will free aid funds, part of which might otherwise have had to be assigned to debt servicing, for social and economic reconstruction. The scheme will also improve the chances of bypassing incidental corruption which can cause aid to be diverted.

We believe that all small states of the Caribbean, Indian Ocean and South Pacific can now make some concrete provision against natural disaster to which global warming may sadly make them even more vulnerable.

HUMPHREY MAUD
Chairman, CDMA
London

The best medicine

SIR—Your atypically blinkered view of Andrew Wakefield's research into the MMR vaccination may prove a disservice to your current and future readers ("Britain's MMR scare", January 27th). I have suffered the painful consequences of Crohn's disease for over 30 years but during the past decade my suffering and that of many others has been alleviated considerably as a result of the research carried out by Dr Wakefield and his colleagues at the Royal Free Hospital. In consequence, I chair a newly formed charity, Visceral, which aims to raise funds to allow this and similar research to progress. What is striking about Dr Wakefield's findings is how widely they are now being acknowledged and accepted by fellow scientists in Australia, Iceland, Ireland, Japan, Kuwait, Sweden, America and Canada. *The Economist*, with its global perspective, should surely have recognised this.

Finally, as a father of three, I wish I had known of the slightest potential link between the MMR vaccination, autism and bowel disorders when my children were vaccinated. However inconvenient it may have been, the prospect of three separate injections for each child would have been an insignificant price for their future good health—a sentiment, I believe, shared by most parents.

NICHOLAS LANDER
London

Would you credit it?

SIR—You report with some astonishment that Buenos Aires shopkeepers, concerned about the effect of a stagnating economy, are offering instalment plans on low-price items ("On the drip", January 13th). This method of selling was very popular in Britain up until the early 1960s. The "tallyman" was a well-known figure in working-class life from the 1920s onwards and possibly earlier too. When money for even small purchases was unavailable, the tallyman provided a valuable credit-sales service with no security required. He even delivered to the door. A pair of shoes, toys for the kids or even a three-piece suite; although the choice was limited to what he could fit into his van.

I well remember travelling with my tallyman dad around London's now almost vanished dockland estates in the 1950s. The hop harvest was the worst time for him. The East End would decamp to Kent for a working holiday. Dad could whistle for his payment as we learned that yet another regular had "gone

hoppin'" and would not be back for several weeks. The increasing affluence of the 1960s and the introduction of the mail-order catalogue killed the tallyman. But for many decades, he provided a useful, if often resented, alternative to doing without.

STEPHEN CURTIS
Barnet, Hertfordshire

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Saying no to peace

Feb 1st 2001 | GAZA AND JERUSALEM
From The Economist print edition

If the Israelis elect Ariel Sharon prime minister, they will be dismissing, for now, any hope of peace. How did things reach this point?

Get article background

EPA

The furious right

A BIG majority of Israelis regularly tell pollsters that they are prepared to pay a high price for peace. Yet on February 6th, or so they are now telling the pollsters, they will vote no in a special prime-ministerial election that has become, in effect, a referendum on a peace agreement with the Palestinians. Both candidates, the current Labour prime minister, Ehud Barak, and his challenger, the Likud leader, Ariel Sharon, claim to be the man who will bring peace to Israel. Mr Barak's claim, though it has not worked out, is serious and comes at a price; Mr Sharon's, on the other hand, is advertised as a freebie. Spurious as this giveaway offer has to be, Israelis, by a margin of 16-18%, seem to have fallen for it. *Gevalt!*, wails a veteran peacenik, uttering this Yiddish cry of desolation as she surveys a dire and self-destructive scene.

That many people will be holding their noses as they vote scarcely improves matters. Since both candidates are, in their different ways, disliked, the turnout is expected to be low, with most voters casting their ballots against one man rather than for the other.

Israel's peace camp had hoped that Mr Barak might hand the baton over to Shimon Peres, a respected former prime minister and elder statesman, who shared the Nobel peace prize with Yasser Arafat and the late Yitzhak Rabin. Although Mr Peres has never won an election, the fact that he has lost so many times is not necessarily held against him. The polls show that if he were running, the two old-timers (Mr Sharon is 72, Mr Peres 77) would be neck-and-neck. But the time for this constitutionally allowed swap has all but run out: the last permitted date is February 2nd. Although the effort to persuade Mr Barak to step aside continues, the prime minister has been adamant from the start that he will carry through to the end, however bitter. Reality, he hopes against logical hope, will suddenly hit the voters when they are alone in the booth with the ballot slips.

This hardly seems likely. Israelis, say long-time observers, have seldom been in a nastier, more bolshie mood. They are angry with Mr Barak for smashing long-held taboos and symbols without warning, seeming to offer the Palestinians more than Israel was prepared to countenance. And they are outraged by the Palestinians, not only for rejecting Mr Barak's offer but for turning on Israelis with violence. "We gave them everything, and they shoot us," is, crudely, the Israeli-in-the-street reaction. Disillusioned and bitter, Israelis are blinkered from any point of view but their own; they are blind to a Palestinian perspective.

If, as is now expected, Mr Sharon becomes prime minister, he will have two options, not necessarily of his own determining. His preference, he says, is to form a national-unity government with Labour, offering Mr Barak the job of defence minister and probably bringing Mr Peres in as well. This would split the Labour Party, but Mr Peres, humiliated by Mr Barak and personally close to Mr Sharon, suggests that he is open to an offer, so long as he approves the policy of the new government. Mr Barak is disinclined to commit himself while he is still fighting the election: he says merely that he would not join a government that contained right-wing and religious extremists.

If he fails to get enough Labour members to cross the line, Mr Sharon would form a narrower coalition with those same extremists. Two or three of them are scary. The "crazies", as non-crazy Israelis call them, include Avigdor Lieberman, the leader of a Russian immigrant faction, who has talked to East European ambassadors about bombing Tehran and/or Egypt's Aswan Dam, and Rehavam Ze'evi, an

ethnic cleanser, who has talked of cutting the Palestinians off from water and electricity, and depriving Israel's own Arab citizens of their vote. The only thing to be said for this coalition is that it would probably quickly fall apart—which is why some people waiting in the wings might prefer it. One of these is Binyamin Netanyahu, once again, after his swift decline and fall, Israel's most popular politician.

The sadness is that neither alternative points the way to peace. Israeli-Palestinian negotiators, who ended their last pre-election talks at Taba last weekend, said that they had never been closer to an agreement. This does not necessarily mean that they were close. The gap is still deep, and a unity government—tugged from left and right—would almost certainly be too paralysed by the tussle to have a chance of closing it.

Probably the best to be hoped for would be some kind of holding agreement. But would the Palestinians agree to stay quietly on hold? As bitter as the Israelis themselves, most Palestinians refuse to distinguish between Mr Sharon and Mr Barak. Mr Arafat now says publicly that it is important that Mr Barak should be returned. His people, in their anger, claim that the two are much the same. They are not. But Mr Sharon, argues a perceptive Palestinian, may be more of a danger to the Israelis than he is to us.

Sharon's rise

Israel's cities show few signs of an approaching election. But Mr Sharon's Likud Party drums out the message that its candidate will end the violence and bring peace without cost. Television jingles play on "Sharon" and *shalom* (peace); posters at crossroads, and the bumper-stickers handed out at red lights by teenagers, say that peace will come only with him. Mr Barak, the stickers say, is bent on giving away Israel's inheritance, from Temple Mount to the Dead Sea.

Mr Sharon's minders, marketing him as a grandfatherly hero, a man from the age of Israeli giants, make sure their candidate gives as few interviews as possible. They tut-tut about the radicalism of Messrs Lieberman and Ze'evi, assuring voters that these men will have no hand in policymaking. The buzzword is "experience". Since he left the army in 1973, Mr Sharon has held several portfolios, which enables the campaign to contrast his maturity and political experience with the brash, military-minded amateurism of Mr Barak, who stayed in the army, serving as chief of staff, until the mid-1990s.

Mr Sharon's consistent policy, whatever his actual government job, was to encourage the type of Jewish settlement that now makes it virtually impossible to form a viable Palestinian state. But in the current atmosphere this is not necessarily a negative factor. Nor does it tell against him that, during his time as a military commander, he retaliated provocatively and brutally against the Arabs. He is remembered instead for heroically saving the day for Israel in the 1973 war, when he took the bold initiative, against orders, to cross the Suez Canal.

Mr Sharon's no less insubordinate exploit, as minister of defence in 1982, of landing Israel in a Lebanese mess that lasted for the next 18 years is a different matter. His campaign managers can only hope that most Israelis, either because they are young or because they are recent immigrants, are unaware that he misled the prime minister of the time about pushing on to Beirut, or that he was forced to resign from the defence ministry after Israel's Christian Lebanese allies massacred Palestinian refugees while Israeli soldiers stood by. But they cannot rely on this. Campaigning in high schools, Mr Sharon has been tackled by pupils, including a girl whose father had been traumatised by serving in the war against Lebanon.

Who are Mr Sharon's core supporters? To some extent, a vote for him is a negative vote against Mr Barak, and vice versa. The religious parties, for instance, are for the secular Mr Sharon largely because Mr Barak antagonised them when he tried to preserve a viable coalition by zigzagging politically between religious and anti-religious left-wing parties. He then added insult to injury by blaming the religious for his misfortunes.

EPA

Sharon versus Barak

But negative voting is only part of the pattern. Many Israelis, frightened by Mr Barak going too far too fast, positively approve of Mr Sharon's unyielding approach to peace and the Palestinians. He would have no negotiations while violence continues. And though he would not, he says, claim back the 40% of the West Bank that is now under Palestinian control, nothing that he has said or done suggests that he would add substantially to this territory.

Israel's Russian immigrants, who now account for about 20% of the electorate, are expected to vote nearly two-to-one for Mr Sharon. Led by right-wingers—Mr Lieberman and Nathan Sharansky—and getting their information from a bevy of right-wing Russian-language publications, Russian Israelis, most of whom have resisted the melting-pot, seem strangely frozen in the past.

At a time when the power of the weak (aided by the power of TV cameras) is generally recognised, the Russians believe even more than the average Israeli in the power of military and technological might. With the Soviet empire as their point of comparison, they are shocked that such a tiny country as Israel could contemplate giving up any of the land it holds. They have come to Israel for security, and what you have you keep, they say. The Kurile Islands, where Russia declines to cede the southernmost few to Japan, tend to come up in conversation.

Poorer, and Sephardic, Israelis are also traditionally inclined to vote for the Likud, seeing Labour as the party of the elite Ashkenazim. Labour, they say with a certain justice, has done little enough for them. Moreover, Mr Sharon's record shows him to be something of a *dirigiste*; to the dismay of his party's liberal economists, he has always believed in government economic intervention for an ideological purpose.

People who have served with or under Mr Sharon say that he is more pragmatic, and more flexible, than his worldwide image. Maybe, some argue, a right-wing government, or a national-unity government led from the right, can get away with more for peace than a left-wing one. There is logic and precedent for that: Menachem Begin was the right-wing prime minister who achieved peace with Egypt. Enthusiasts even speak of a De Gaulle syndrome. But perhaps they should blush when they do so.

Barak's fall

Israel, says Yoel Marcus, one of the country's most respected journalists, is a cemetery of popular politicians. The popular Mr Netanyahu became hated by the men around him and was booted out with howls of derision after three years as prime minister. Mr Barak, who beat him by a handsome majority in May 1999, began splendidly. His intentions were impeccable. With his people behind him, he strode off down a high moral road that would bring an end to Israel's sad history as an occupying power. But on the way he lost his people, and his target eluded him.

Losing his people was largely his own fault. Mr Barak is a clever, rational thinker who cannot be bothered

to explain what he is thinking; a soldier-turned-politician who despises politicians. His coalition for peace, which originally looked so solid, was soon in tatters as he tried ham-handedly to play one faction off against another. Even as a soldier, the most decorated soldier in Israel, man-management was not said to be his forte.

As he oscillated both on the peace process and on domestic policy, his followers trailed confusedly after him, and eventually rebelled. He failed to prepare them for the sacrifices that he knew would have to be made by Israel in return for a lasting peace. He also failed to prepare them for the Palestinian uprising that he knew was in the making. And when this uprising started, he lost his most loyal supporters, the 20% of Israelis who are Palestinian-born.

Compared with Jewish Israelis, Arab Israelis are discriminated against in almost every way. Their municipalities get less money, their education is poorer, their unemployment rate far higher, and it is virtually impossible for them to buy land, nearly all of which is government-owned. Despite this, they continued to support Labour prime ministers. Until, that is, the week last October when Palestinian Israelis in Galilee demonstrated in support of their fellow-Palestinians in the territories—and the Israeli police shot dead 13 of them.

The shooting, and the government's failure even to say it was sorry (a commission of inquiry has been set up), has cost Mr Barak dear. Arab Israelis will not support Mr Sharon, but they will not turn out for Mr Barak either. The debate now is whether they should go to the polling stations and register their dislike of both candidates by returning a "white" (blank) vote, or register their alienation from the whole Israeli scene by a boycott. Activists, radicalised by the shooting and its aftermath, stress their Palestinian identity and call for a boycott.

Bad management and worse can be laid at Mr Barak's door. But the great eruption of Israeli and Palestinian anger that now looks like doing him down may have been inevitable. Believing that the step-by-step approach would eventually do more harm than good, he courageously went for broke.

He exposed the myth that Jerusalem should be Israel's eternal, undivided capital, and suffered from doing so. Abandoning ambiguity, he demanded that the Palestinians agree to the "end of conflict". Though that would not have meant an end to all disputes, it would have meant the end of international legitimacy for the Palestinian struggle. Understanding this, the Palestinians responded with another explosive three words: they would not renounce the "right of return" of the hundreds of thousands of Palestinians forced out of their homes during Israel's war of independence. The two principles collided painfully.

The notion that the Palestinian refugees and their families should still, after 52 years, contemplate returning to Israel outraged the nation. Even though Mr Barak was not contemplating the right of return—he would not agree to the principle, and would permit only a few refugees into Israel under stringent conditions—he was blamed for allowing the talks even to reach this point. Israelis who had voted for Mr Barak and for peace in 1999 backed away in dismay. He was giving away much too much, they said. And just look at what those ungrateful Palestinians were doing in return.

Punishing the Palestinians

If Mr Barak's good intentions had led to an agreement and not an *intifada*, he would, at the very least, have had a better chance of winning an election-referendum. This may never have been possible. But once the uprising had erupted—provoked or provocative, according to the way you look at it—and Israel had responded by shooting demonstrators dead and punishing the entire population, there was no chance of the Palestinian leaders being able to corral their people into a permanent agreement.

The current *intifada* is not at all like its six-year predecessor, which ended in 1993. There are obvious differences: it is far more intense (360 Palestinians and 47 Israelis killed in four months) and the Palestinians now have guns as well as stones. But there are also less obvious ones: the militants are mainly poor or highly political (unlike the first *intifada*, students are not playing much part), the fighting is more purposeful, aimed at soldiers and settlers, and the protests are double-edged, being both against Israel and against the Palestinians' own corrupt, undemocratic leadership.

For the past month, the violence has simmered down, but this, say the Palestinians, is no more than a pause. Israel's retaliatory measures are not calculated to have laid the foundations for peace. Quite apart from the shooting to kill (half the Palestinian dead were shot in the head or neck), the economic

strangulation of the territories, and the harassment of people trying to go about normal business, is creating lasting resentment.

The statistics tell a story. Palestinian GDP was 13% lower than predicted in the last three months of last year; the core unemployment rate has risen from 11% before the *intifada* to 35-40%, and the number of people living below the poverty level ($2.10 a day consumption) has grown from 20% to 32%. People who would never throw a stone wonder, as they endure the harassment and humiliation of embankments and trenches and checkpoints that prevent them from leaving their towns and villages, why they are being punished.

An enterprising people, Palestinians usually find a way round road-blocks. But listen to half a dozen Gazan farmers, sitting quietly in a lunar landscape of destruction, as they tell their story. Their citrus fields, olive and almond groves, and greenhouses of fruit and vegetables were razed to the ground, supposedly because they were in the vicinity of a road that a handful of Jewish settlers might use. But what distressed these farmers, even more than the uncompensated loss of their property, was that the rain had at last fallen and they were forbidden to sow their wheat.

Some Israelis disagree strongly with the policy of collective punishment. Most neither know nor care. But Israelis suffer a new sense of personal insecurity—a few of the recent killings of Israelis have been cruelly random—and for this they blame Mr Barak.

AP

Palestinian farms destroyed

Snake-oil salesman

Voters, it seems, are ready to accept Mr Sharon's assurance that he will stop the violence—to do this he has said he is prepared to destroy Palestinian houses, row after row—and that, once things have quietened down, everything will continue much as before. The Palestinians will have their autonomy, even perhaps called a state, and the Israelis will enjoy an easy peace, while holding on to much of the occupied land.

For Israelis with a bit of memory, these promises, and this attitude, recall the sanguine mood before the 1973 war when Israel convinced itself that it could stay for ever in possession of most of the 1967 war conquests, and that the Arabs, recognising reality, would eventually accept this state of affairs. When Egypt attacked during Yom Kippur, and 3,000 Israelis lost their lives, this mood, it was thought, ended for ever.

Not so. Although Israel has transformed itself into a lively high-tech society, there are nowadays echoes of the same misconceptions about peace coming cheaply on Israel's terms. If Mr Sharon is a snake-oil salesman, many Israelis, battered by Mr Barak's shot-gun approach, are prepared to allow themselves to believe him.

Others cry warning. For the first time for many years, Israelis are murmuring about the possibility of a wider war. There is nothing solid to these murmurs. But people recollect Mr Sharon's supposed grand strategy behind Israel's invasion of Lebanon: the Palestinians would be forced out, they would then turn Jordan into a Palestinian state, and Israel would be off the hook. This dream went wrong. But might he now, they ask, be tempted to take some action that would once again throw the cards into the air, to land where they would?

Probably not. But the election of Mr Sharon, if this is what happens next Tuesday, invites alarming speculation.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Compassionate conservatism takes a bow

Feb 1st 2001 | WASHINGTON, DC
From The Economist print edition

President Bush's attempt to put "compassionate conservatism" into practice is neither as disruptive as its opponents fear, nor as dramatic as its supporters believe

THE wake-up call, John DiIulio says, happened in Boston in 1992. For years, the Rev Eugene Rivers, a high-octane Pentecostalist minister, had been struggling to help inner-city children do battle with drugs, jail, violence and eternal damnation, without much official help. That year, gang members burst into the funeral service of a young victim of a drive-by shooting and knifed a boy in full view of the mourners. Shocked, Boston's politicians and police took notice and began to help. "With the churches, we can turn our neighbourhoods around," concluded one police officer. "Without them, we can't."

That sentiment has now been adopted by the Bush administration, and Mr DiIulio has been put in charge of a new Office of Faith-Based and Community Initiatives (ugh) to turn it into policy. He has three aims. To increase charitable donations, of time and money, through tax breaks; to make it easier for religious charities to apply for tax dollars; and to promote the sort of public-private partnership seen in inner-city Boston.

To its proponents, this is nothing less than a new way to help the poor. Churches, synagogues, mosques and temples, supporters think, are better at delivering social services because, unlike public agencies, they are prepared to insist that recipients change their behaviour, which is the best way of getting out of poverty.

Beyond that, Mr DiIulio quotes the work of Lester Salamon, a professor at Johns Hopkins University, who argues that non-government bodies—savings associations, sports clubs, churches—are not, as conservatives often argue, engaged in a zero-sum game with the government, advancing as it retreats, getting crowded out as it advances. Rather, he says, they depend on a network of contacts with government and business to survive. Hence, Mr DiIulio thinks his search for partnerships with religious charities will have social effects far beyond the poor.

Opponents of the idea focus on a different aspect: it is, they think, an affront to the religious liberties enshrined in the constitution. Americans United for the Separation of Church and State, a lobby group, maintains that "the very existence of a federal office whose sole purpose is to give tax dollars to religious groups is in irreparable conflict with the first amendment."

Not only secular groups think this. Richard Foltin, of the American Jewish Committee, thinks the government cannot both increase its entanglement with religious groups and ensure it protects individuals from undue religious influence and the institutions from undue influence by the state. Jim Wallis, the president of a network of faith-based charities, doubts there will be a problem with the recipients of church aid (they can always leave the programme), but finds another glitch. If a Muslim group gets a federal contract, may it insist that any new people it hires to help with that contract are themselves Muslim? "Faith-based" supporters say yes. The constitution says no.

George Bush's proposals will probably pass constitutional muster because the first amendment draws a fuzzy line between church and state. But while those arguments continue, closer inspection shows the basic idea to be, despite the sound and fury, modest and intriguing rather than radical.

To begin with, it is not brand-new. Religious groups have distributed taxpayer-financed social services for

decades. America's largest charity is Catholic Charities, USA. In 1999, two-thirds of its $2.3 billion budget came from the government. The difference is that Catholic Charities, though set up by the church, is formally separate. Mr Bush is proposing to give money directly to churches, so he is crossing a line. But the practical distinction is unclear. In hospitals run by Catholic Charities, priests and nuns help out; there are crucifixes on the walls (patients could in theory have them removed, but no one bothers). Moreover, churches, mosques and so on (henceforth congregations) get some federal money already, from the welfare reform bill of 1996. The new initiative would merely extend that, enabling them to bid for all government social contracts, not just welfare ones.

But the bigger reason why the new proposal is likely to prove modest is that it is based on a number of assumptions, and not all are true. For example:

• **There is a huge amount of social activity by churches just waiting to be organised properly.** There is indeed a lot of activity. America has 300,000 congregations. A study of 113 of them by Ram Cnaan, a professor at the University of Pennsylvania, found that 91% offered some sort of social service, and most offered five or more. The total number of volunteer-hours was 148 hours per programme per month, and Mr Cnaan reckoned each congregation gave the equivalent of $140,000 a year. But demand is greater. Tobi Jennifer Printz, of the Centre on Nonprofits and Philanthropy, found that 40% of congregations in Washington, DC, turn away requests for help. Only 3% of congregations get any government funding. If they could get more, presumably, there would be an outpouring of help.

Or would there? Research by Mark Chaves of the University of Arizona raises doubts. He found that fewer than 10% of congregations had programmes for the persistent problems of poverty: drug abuse, poor health care, domestic violence and lack of work training. These efforts were concentrated in the biggest churches. Only half the churches with congregations of fewer than 150 had social programmes, compared with 86% among those with 500 people or more.

There are two ways of reading these findings. One is to say that smaller churches could be doing more. The other is that small congregations are only ever likely to do what they are doing now: running soup kitchens and giving away old clothes. The hard social work can be done only by big congregations—and they are already doing a lot.

• **Religious organisations are better at social work because they have a distinctive approach: personal, intensive, focused on lasting solutions.** This has anecdotal support. The Prison Fellowship programme in Texas has a recidivism rate under 5%, compared with a national average of around 50%. But only 80 prisoners have gone through the programme. Among drug-rehabilitation programmes, there is evidence that the most successful are those with the highest component of religious teaching. Marvin Olasky, an adviser to Mr Bush in Texas, thinks that many potential volunteers are driven to social work by their religious faith, but are put off by the secular character of many institutions. He says Mr Bush's encouragement of religious charities will stimulate "supply-side compassion".

Again, that is possible, but the current evidence suggests, perhaps surprisingly, that this approach is the exception. Mr Chaves's research finds that the majority of congregations are engaged in short-term emergency programmes, such as soup kitchens, not the sort of long-term personal efforts they are especially praised for.

• **The new initiative is primarily a bottom-up process driven by congregations.** The little evidence available suggests this is entirely wrong. Mississippi tried a similar programme at state level, and had to scrap it because so few congregations got involved. Indiana hired consultants to go out and look for congregations and help them fill in the forms. This produced eight contracts. The moral is not that congregations are not interested in getting federal dollars for social work. But the process is far harder than it looks; and Mr DiIulio's progress is likely to be measured in inches, not miles.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

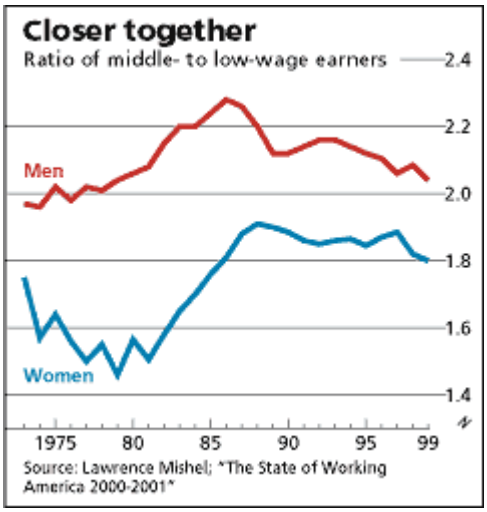
The widening gap

Feb 1st 2001 | WASHINGTON, DC
From The Economist print edition

IN ABSOLUTE terms, those with most to lose if the economy slides into recession are the rich, especially those people who have grown rich beyond their dreams as the value of their shares has soared with the stockmarkets. But those with least to lose are, in the end, likely to be the hardest hit. People on the margins of the labour market are often the first to lose their jobs when firms cut back; and those looking for work discover that low-skilled jobs become even less well-paid when unemployment starts to rise.

As yet, the gloomy talk of recession is not reflected in the unemployment figures, which have been flat—at around 4%—for more than a year now. The number of part-time workers has also continued to fall, reinforcing the picture of a tight labour market. But average weekly earnings are now rising more slowly than prices, which could be interpreted as the first sign of a weakening jobs market. And the overall figures conceal some large differences among specific groups of workers and would-be workers. The overall unemployment rate for young men aged 18-25 with nothing but a high-school diploma was 11.1% in the third quarter of last year. For young blacks with similarly poor qualifications, it was 22.7%.

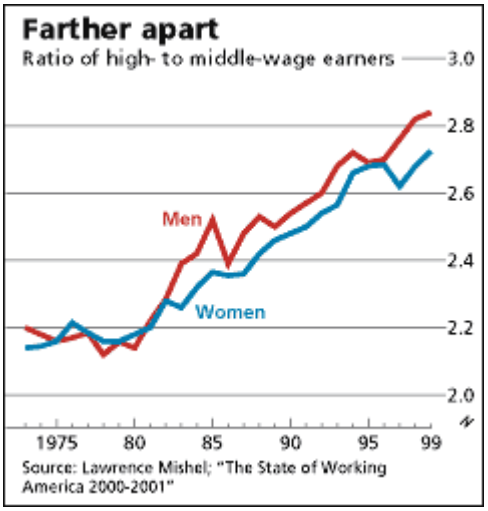
During most of the 1980s, the gap between rich and poor and, more important, between middle-income earners and the working poor widened, both in good economic years and bad. This was largely the result of a big drop in the real value of the federal minimum wage. Since 1993, however, there has been a marked narrowing of the gap for both men and women (see chart). This improvement has taken place against a background of rapid economic growth and accelerating productivity growth: the tight labour market has helped low-paid workers more than productivity improvements might have been expected to hinder them.



Conventional wisdom has tended to assume that growth in productivity, especially that resulting from technological progress, would lower the demand for low-skilled workers and make it harder for them to get work. But new research from Lawrence Mishel and Jared Bernstein, of the Washington-based Economic Policy Institute, casts doubt on that link. They point out that the period which saw the greatest growth in inequality—the 1979-89 business cycle—had no better productivity growth than the 1970s; whereas the pick-up in productivity growth after 1995 has not been accompanied by an overall growth in wage inequality. They reckon technology has not, so far, worked against the less-educated or lower-skilled workers of the new economy. Compared with middle-income earners, the poor have got no poorer.

But the rich have certainly got a lot richer. The gap between the two extremes and, more significantly, between high-wage earners and those in the middle has grown sharply (and has been doing so ever since 1973—see chart). If the technological revolution has had any impact on income distribution in America, it is in the way it seems to have widened the gap between the middle and the top.

The trend of the past few years may not be much comfort to those at the bottom, if recession comes. One other change over the past 20 years has been the weakening of the welfare safety net. The eligibility criteria for unemployment insurance have been tightened, and state-level welfare help is no longer an automatic entitlement. In theory, states can run out of money for such things as child-care help for low-paid workers, or can decide to cap such spending. And President Bush's faith-based plans are unlikely to plug the gap in a full-blown recession.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

California's power crisis

Sleepless nights

Feb 1st 2001 | LOS ANGELES
From The Economist print edition

ON THE principle that, having made its bed, it should sleep in it, the government of California is preparing to clamber into the rumpled mess of the state's electricity business. Governor Gray Davis and the state's legislators are working out a plan for the state to buy and sell electricity, inserting its financial solidity as a buffer between the firms that produce power and the utilities that buy it to distribute to retail customers.

EPA

A shoplifter's dream

The state's two main utilities, Southern California Edison and Pacific Gas & Electric, have taken a battering. A semi-deregulation of the industry in 1996 severed the generation of electricity from its sale to consumers, and both SCE and PG&E sold many of their power stations. But many regulations still applied to the industry. In the wholesale market, prices were allowed to fluctuate. The retail prices that utilities charge their customers, on the other hand, were not allowed to rise above a certain level. Result: disaster.

The debts the utilities ran up—getting on for $12.7 billion—pushed them towards bankruptcy, as credit agencies downgraded their ratings. The political pressure mounted when, unable to borrow money to buy extra power to put into the system to meet demand, PG&E, which serves northern California, had to cut power to blocks of its customers in turn on January 17th and 18th. Ever since then the state has remained in a "stage-three emergency", which means that it is close to exhausting its supply. Mr Davis and the state legislature are now trying to devise a plan to keep the lights on, save the utilities from going bust—and yet, if possible, avoid charging most Californians, who suspect a plot rather than a shortage, any more for their power.

The plan taking shape, as debated in mid-week, has several likely elements. First, the state, which has excellent credit, would strike deals with power suppliers to buy electricity over a long period of time, funding the purchase with a $10 billion bond issue. It would then sell this power to the utilities, or even directly to consumers. The governor's office is due to announce its response early in February to 39 bids for deals of this sort that it has received from power suppliers.

Second, the state might raise electricity rates for customers who use more than a designated amount of power; a rate increase that the governor allowed for 90 days has already been extended. Third, it would establish a state power authority to build or buy power stations and transmission equipment. Fourth, the state, in return for its aid, would get warrants to buy the utilities' equity, meaning a profit if their share prices rise.

This last idea, which Mr Davis compared to the stock options that once powered Silicon Valley, worries consumer-rights groups, in which California abounds. They see a conflict of interest in letting the state profit from a rise in the share price of utilities, which it can influence by allowing, for example, large rate increases.

While the legislators haggled, sympathy for the utilities, already in scant supply, took a further dip with the publication of results of an audit of the two utilities' books demanded by the state. Thanks to one of the many rules imposed by the deregulation process, SCE was able to keep its losses on reselling power bought on the wholesale market separate from the profits it was making selling power from some of its remaining power stations, which went back to its parent company, and so ultimately to shareholders. Had the profits been set against the losses on bought-in power, these would have been wiped out entirely.

Squaring the financial arrangements will remove the threat of black-outs in the immediate future, and save the utilities from utter collapse. But Californian politicians cannot yet sleep easy. Demand for power in the summer can be 30% higher than at this time of the year. Several new power plants, including the first to open in the San Francisco Bay area since 1972, will start producing electricity this summer, adding about 1,720 megawatts of capacity, but this will still leave California desperately short of power supplies in June and July. Four times this much power is due to be added by late 2002, but until things come into balance at that point California will be trying to buy much of its power from its neighbours—who are feeling increasingly unhappy.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

Alan Greenspan, fiscal fiddler

Feb 1st 2001
From The Economist print edition

Get article background

HE IS famous for his monetary-policy decisions, moving markets and stirring hearts; and this week's interest-rate cut was no exception. But such efforts are mere ephemera. Far more important for the future of the American economy may be Alan Greenspan's Senate testimony on January 25th, in which the chairman of the Federal Reserve Board offered gnomic comments about fiscal policy. They may not have moved markets, but they certainly stirred hearts.

With a few words, Mr Greenspan has transformed the politics of tax cuts and started a frenzy of expectation in Washington. Out goes talk of small, targeted cuts. In comes discussion of vast across-the-board reductions. Trent Lott, the leader of the Senate, appears to see the testimony as the start of a sort of auction in which President Bush's proposed $1.6 trillion cut is just an opening bid. More cautious people reckon that the chairman has "merely" added a few hundred billion to tax cuts already supported by Democrats. Either way, the two main political restraints on income-tax reduction—President Clinton's veto and Mr Greenspan's opposition—have now gone.

But while senators and congressmen scurry away to write a tax bill with scores of zeros attached to it (and no doubt dozens of pork-barrel projects too), it is worth stopping to ask two basic questions. Did Mr Greenspan really endorse the president's proposed tax cut? And, if he did, was he right? The answer to both questions is, Not really. The part of his testimony that made sense did not endorse a tax cut now. And the part that did endorse one made no sense.

One of the clearest economic lessons of the past few years is that it is almost impossible to fine-tune an economy by fiscal means (spending increases or tax cuts). The reason is that the political timetable rarely matches the state of the economic cycle. By the time Congress gets round to discussing a tax cut, the recession has usually started; by the time the money ends up in consumers' wallets, the recession is usually over. Mr Greenspan explicitly referred to this line of argument when he said (in his inimitable way), "Such tax initiatives historically have proved difficult to implement in the time-frame in which recessions have developed and ended." He did not follow the logic of this position through, but insofar as it means anything it must mean he fundamentally disagrees with Mr Bush's assertion that a tax cut is needed to jump-start the economy now.

Congress will not pass a tax cut until this summer at the earliest. Consumers will not feel the full effect until later, possibly just when growth picks up again. This does not mean the cut cannot offset a recession. But it will do so only if the recession starts now and drags on for longer than even the gloomiest now expect. In reality, this part of the Greenspan testimony undermined, rather than supported, the Bush administration's current justification for tax cuts.

But the chairman's bigger point concerned the long term. He argued that a tax cut is needed now to prevent the government accumulating large stocks of private assets when the stock of public debt is paid off. On this argument, if the government were still running a budget surplus at that point, it would have little choice but to spend the excess revenue buying up other assets like municipal bonds and, eventually, chunks of the private sector—a disturbing prospect. Therefore, the chairman argued, it makes sense to start cutting taxes now to provide "a pre-emptive smoothing of the glide-path to zero federal debt".

This argument is fine in principle. But there are two huge practical problems. First, when does the debt actually disappear? Mr Greenspan suggested it could be as early as 2010. The rosier forecasts from the Congressional Budget Office suggest it could be even sooner: 2006. It reckons the overall budget surplus will be almost $6 trillion over the next ten years, $1 trillion more than it guessed just six months ago. But both these estimates embody wholly unrealistic expectations about federal spending, which rose dramatically last year and will rise even further if you believe Mr Bush's campaign promises. Adding up all his commitments on anti-missile defence, medical entitlements and so on, they amount to hundreds of billions of dollars over ten years. If passed, they would push the supposedly critical date of zero debt farther into the future than either the CBO or Mr Greenspan expects. On this basis, Mr Greenspan's "glide-path" is an unnecessary exaggeration, rather like a fat man starting on a diet and worrying about anorexia.

Far more disturbing, though, is the second reservation: what happens after the debt is paid off? For a few years, the government would indeed accumulate private assets, as Mr Greenspan worries. But thereafter the public finances would swing rapidly back into deficit again because, at this point, the costs of Social Security and Medicare soar as the baby-boomers retire. So even if Mr Greenspan is right, and the public debt is paid off sooner rather than later, the long-term budget position, properly conceived, still does not require a tax cut now. Rather, it gives warning of an awkward hiccup in the public finances for a few years after the debt is paid off. And after that it enjoins higher, not lower, budget surpluses. The notion that this makes a case for lower taxes now is a travesty.

The only possible economic justification for Mr Greenspan's views is that the new economy has produced a productivity miracle: a permanent increase in the underlying rate of productivity growth that is capable of being sustained through a downturn. If that were true, the public debt might indeed be paid off early and the Social Security and Medicare costs would be more manageable (though they would still not go away).

Such a miracle may be occurring. But no one is sure and, given that the downturn has only just begun, there is no strong evidence yet. To justify ten years' worth of huge tax cuts on the basis of a guess about productivity growth derived from a few quarters' figures can only be considered a reckless gamble—and, since the tax cuts need not be so vast, an unnecessary one.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Good blood

Feb 1st 2001 | COLUMBIA, SOUTH CAROLINA
From The Economist print edition

ON JANUARY 23rd Strom Thurmond of South Carolina, at 98 the Senate's oldest and longest-serving member, announced that he would nominate his 28-year-old son Strom Thurmond junior to be South Carolina's top federal prosecutor. The elder Thurmond declared his blond progeny, who is currently an assistant prosecutor in the state, to be "uniquely qualified". You don't say.

AP

Junior

Mr Thurmond *fils* has been out of law school less than three years, and has little civil or criminal law experience. He would be the youngest of the country's 93 federal attorneys. The average age of these attorneys is 50, and their average span of legal experience 22 years. Young Strom has barely been alive that long.

The betting, however, is that Thurmond *père* will have his way. The nomination has to go to the Senate Judiciary Committee; as it happens, he is a senior member of that committee. Fellow senators rarely turn down candidates pushed by one of their colleagues. Besides, most Democrats in the state, including the state's junior senator, Ernest "Fritz" Hollings, say they will back the nominee. Junior, they say, is a bright young man who will do a good job.

Anyway, Ol' Strom is an institution, and has done favours for hundreds of thousands of South Carolinians over the past 75 years. The state may well like to keep the name in lights. And no one is better placed than young Strom, if he gets this job, to slide into his father's Senate seat when (if?) dad retires, a century old, in 2002.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Prescription drugs

No panacea

Feb 1st 2001 | WASHINGTON, DC
From The Economist print edition

IF THERE were one subject you might think would foster a little bipartisan co-operation, it would be how to provide cheaper prescription drugs to America's 40m elderly and disabled people. During the election, a constituency that votes prolifically and complains vociferously was promised "reform" by both the Republicans and the Democrats. It may now be disappointed.

The cost of prescription drugs has been rising by 15% a year. Medicare, America's public-health system for old people, does not cover out-of-hospital prescriptions, and the average older person has about $1,000-worth a year. Around a third of Medicare members have no private insurance, and coverage for the rest tends to be spotty. In all, something like half the medicine costs of the people on Medicare come directly out of their pockets—and, as any politician who has visited a Florida nursing home can tell you, this matters.

Doing anything about it, though, is hard. There are fundamental disagreements between the parties on how the benefit should be arranged, whom it should cover, whether it should be administered by the government or private insurers, and how much it should cost. By most estimates, Medicare, which costs $220 billion a year, is already overburdened, and, with the country rapidly ageing, the number of people in the programme will double by 2030.

Recent history is not auspicious. A bipartisan Medicare commission headed by John Breaux, a Democratic senator, and Representative Bill Thomas, who now chairs the committee overseeing Medicare, reached deadlock in 1999. In the same year two Democrats, Senator Ted Kennedy and Pete Stark, a California congressman, started piloting a bill through Congress that would enable Medicare to provide prescription drugs as it does other services. The patients would make a small payment with each prescription; most of the cost would be borne by the taxpayer and by the drugs companies, which would be paid for their pills at bulk prices negotiated by government contractors. A Clinton-administration variant of the Stark-Kennedy proposal, which did no better, was supposed to cost $330 billion over ten years, increasing Medicare by a tenth.

The Republicans take fright at these numbers (which may be underestimated, because they make no real allowance for the potential effect on demand of lower drugs prices). They also objected to the amount of government intervention. Their plan, launched last summer, was more moderate in scope and would have put most of the cost on the insurers—who promptly helped to kill the Republican effort. "The thing about Medicare is, everybody always underestimates how complicated it is," sighs an outgoing Clinton official.

Both sides can also see advantages in not compromising. Mr Bush, whose budget director is a former pharmaceutical-industry boss, wants to stick to a relatively cheap and temporary ($48 billion over four years) programme to provide immediate coverage for elderly Americans who are just above the poverty line. Many of these vote Democratic, but the Democrats will almost certainly fight the proposal, arguing that it lets pharmaceutical companies off the hook and won't provide help for many old people. In addition, they reckon all this can be an issue in the 2002 elections, when they hope to win control of Congress. Clearly, delivering a bill is going to test Mr Bush's haggling skills. In one hopeful sign, Senate Democrats have indicated that they may compromise by allowing more private-sector involvement in the delivery of drugs. But it is very early days.

The irony is that one potential beneficiary of a stalemate over prescription drugs may be a patients' bill of rights, a subject that was pushed to the side during the election. A bill designed to rein in the deeply unloved health maintenance organisations was passed overwhelmingly by the House last year, but was blocked in the Senate, where the Republicans objected to the idea of exposing the HMOs to lawsuits.

Mr Bush, too, is no friend of trial lawyers. But plenty of Republicans are nervous about HMOs, and the political need for the White House to pass at least one health-care bill may be unstoppable. If drug reform looks difficult, a compromise bill of rights, which allowed lawsuits but with caps on punitive damages, might well get through.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Football

Rage v Maniax

Feb 1st 2001 | CHICAGO
From The Economist print edition

AMERICA'S football fans will not have to wait long for their next dose of the sport. The XFL, a new football league jointly owned by the World Wrestling Federation (WWF) and NBC, will have its premiere only six days after the Super Bowl. The XFL offers a new style of football—rougher, tougher, quicker-paced and more entertaining, it says, than the version that usually ties American males to their sofas on Sundays.

AP

Wait till you see the cheerleaders

"Not the lily-white, pasteurised, homogenised pro football that the NFL wants to sell you," promises Vince McMahon, the president of WWF. To begin with, the rules have been changed. There will be less protection for quarterbacks, more contact will be allowed between defensive backs and receivers, and no "fair catch" rule—the provision that allows punt receivers to catch a punt and declare themselves down rather than catching the ball and being immediately pummelled by defenders rushing at them. The time between plays will be shortened. Teams will have to run or pass the ball into the end-zone to earn the point after a touchdown, rather than kicking for the extra point. The eight teams in the league have the predictable sort of name: the Chicago Enforcers, the Orlando Rage, the Memphis Maniax.

Microphones will be everywhere, including on individual players and in the locker room. Fans will be able to hear what the coach of the losing team has to say to his players at half-time (with some of the more motivational language beeped out via a slight broadcast delay). The television analyst for the games broadcast on Saturday nights will be none other than Jesse Ventura, governor of Minnesota and former pro wrestler.

"The XFL will encourage individuality and the natural expression of joy and emotion on the field of play," according to its publications. Each team will have its own cheerleaders, described by Mr McMahon as an integral part of the game. "I suspect they will make the Dallas Cowboy cheerleaders look like Amish girls," says Allen Sanderson, of the University of Chicago.

Will the ensuing spectacle be sport or entertainment? "Nothing on the field will be scripted. It will be pure football," says John Lanctot, spokesman for the Chicago Enforcers. Las Vegas bookmakers will be handicapping the games and taking bets. Still, the league may have to earn its legitimacy. After all, the World Wrestling Federation is 100% scripted conflict, 0% real wrestling. And all the teams in the league are owned by one entity, which makes fixing outcomes easier than if each team were an independently owned franchise, as in most American sports leagues.

The line between sport and entertainment in America has already grown blurred. Sports executives market their products to families who are deciding whether to spend an afternoon at a theme park or a ballpark, says Mr Sanderson. Most of America's sports stadiums now have good food and drink, giant video boards, fireworks, and music and dancing during breaks. The baseball stadium for the Arizona Diamondbacks has a swimming pool just beyond the centre-field wall. The Chicago White Sox baseball team holds a "bring your dog to the ballpark" day every season. Mr Sanderson points out that the most popular Olympic events in America are women's figure-skating and gymnastics, both of which involve scantily-clad young women performing for judges.

None of which guarantees that the XFL will succeed. Will fans who have just watched six months of NFL football want 12 weeks more? In cities like Chicago, the games will be played outside in February:

insanity, as your correspondent can attest. Other rivals to the NFL have come and gone. The World Football League lasted a mere two years in the 1970s; the United States Football League folded after only three seasons in the 1980s.

But “never underestimate Vince McMahon,” says Phil Rosenthal, a television critic for the *Chicago Sun-Times*. Mr McMahon transformed the WWF from a laughing-stock into a highly profitable entertainment powerhouse that is now listed on the New York Stock Exchange. It offers the slugging gusto of professional wrestling as its appeal to young males. In 1999, the WWF went head-to-head with “Monday Night Football” for 17 weeks and drew nearly 50% more male viewers aged between 12 and 24. The XFL, by blending the ever-popular flavours of sex, violence and gambling, may also find plenty of enthusiastic viewers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Cuban spies

Stingless Wasps

Feb 1st 2001 | MIAMI
From The Economist print edition

AP

Spies' stuff

THE efforts of governments in Washington to undermine the Cuban revolution, including the CIA's famous exploding cigars, are known to everyone. But what has Cuba been up to all this time? For years, Cuban exiles in Miami have warned the American authorities that the city was a nest of spies working for the Castro regime. But there was never much hard information to go on. Then, a little over two years ago, federal agents in Miami rounded up an alleged Cuban spy ring accused of trying to infiltrate several military bases in Florida, including the Pentagon's Southern Command headquarters, which deals with Latin America.

Since December, the spies have been on trial. At first, the evidence produced—tapes, computer discs—suggested an amateur outfit. Not so. Subsequent evidence seems to implicate the five men in a sophisticated spy operation, codenamed the Wasp Network, dating back almost a decade. Its job was to procure defence secrets and sow discord among the Miami exiles. The most serious allegation so far links the group to the 1996 shooting-down of two small aircraft belonging to Brothers to the Rescue, a Cuban exile group, in which four people died.

Communications between Cuba and its agents were deciphered only after the FBI broke Havana's secret codes. Witnesses in the trial have described telephone taps which recorded conversations in high-speed morse-code, and micro-dots embedded with messages. The five men posed as working-class exiles, and used false papers; two of them took names from the death certificates of babies who died in California in the 1960s. With these stolen identities, they obtained anything from driving licences to Social Security cards.

Lawyers for the five have conceded that their clients were working for Havana's Directorate of Intelligence. But they have mounted an ingenious defence, attempting to show that the five failed so miserably in the tasks assigned by Havana that they posed no real threat to America's national security. This has produced some entertaining moments in court.

One alleged conspirator, Joseph Santos, alias "Mario", spent two days on the stand describing for the jury his spy training in Cuba and his clandestine surveillance of Miami's Southern Command. But under cross-examination he admitted that he never obtained any classified stuff. His coded reports back to Havana consisted instead of a painfully detailed description of the street location of Southern Command, with a list of neighbouring bus routes. "Results of the penetration are nil," his handler wrote back to the spy-masters in Havana.

Mr Santos, a former university teacher, was assisted in espionage by his wife, but they did not greatly enjoy their illegal work. On pay from Havana of only $400 a month, they struggled to cover their bills. Since Mr Santos had to take two legitimate jobs to make ends meet, he had little time for snooping. One of the accused managed to combine both legitimate work and spying, obtaining a job as a caretaker at the Boca Chica naval station in Key West. But his lowly position at the base gave him little access to secret information. His handler wrote that "cultivating and strengthening his friendship with persons with intelligence possibilities within the objective has not been good." Another defendant spent months providing detailed, but utterly useless, reports on daily flights in and out of an air-force base at Tampa.

The Cuban government hoped to detect any unusual military activity that might indicate a planned

American invasion. This, the defence argues, was legitimate work. Throughout the 1990s Cuban exiles boasted of paramilitary raids into Cuba, culminating in a series of hotel bombings in Havana in 1997. But the alleged spies spent just as much time—and had a lot more success—penetrating exile groups in Miami.

One of the accused, Rene Gonzalez, befriended some exile leaders. He was also an active member of Brothers to the Rescue and the Democracy Movement, two of the most prominent exile organisations. According to court documents, he and another member of the ring were warned not to fly with the Brothers around the time when those two aircraft were shot down, suggesting that the attack on them was planned well in advance.

Although many people dismiss the Wasp Network as little more than a hapless bunch of revolutionary stooges, their aims in Miami are nonetheless revealing. “What this shows is that Havana has no interest in building bridges with the exile community,” says Damian Fernandez, of Florida International University. “This is straight out of the cold-war doctrine of divide and conquer.”

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Fox and Bush, for richer, for poorer

Feb 1st 2001 | MEXICO CITY
From The Economist print edition

Relations between Mexico and the United States are growing ever closer, but, with an economic downturn threatening both, not necessarily easier

NOT so long ago, Mexico and the United States were, in the title of a best-selling book, “distant neighbours”, such was the gulf between them in everything from politics to ways of thought. Now they are becoming umbilically linked. Not only have Mexico’s exports to the United States been growing at around 20% a year since the North American Free-Trade Agreement (NAFTA) came into effect in 1994, but the two countries are closer in other ways.

This week, Mexico began selling 50 megawatts of electricity, or enough to power 50,000 homes, to California—a routine neighbourly transaction, but one that would once have been seen as close to treason. In the 1980s, Mexico was still so paranoid about foreign meddling that it protected even its criminals in the name of national sovereignty. It has since begun extraditing them to the United States. Mexico’s Supreme Court last month confirmed this was legal. Days later, a drug-runner bribed his way out of jail, prompting Vicente Fox, Mexico’s new president, to back extradition publicly.

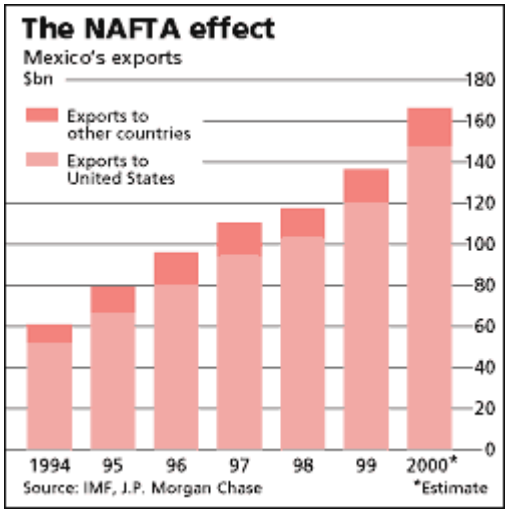
Meanwhile, a multitude of binational bodies have sprung up to tackle shared problems such as migration, border control and water shortages, as well as drug trafficking. To set the seal on the new closeness, on February 16th George Bush will make his first foreign trip as president, not to Canada, as many of his predecessors have, but to Mexico, to see Mr Fox.

Ironically, however, what may bring home most sharply to Mexicans the two countries’ changed relationship is the slowdown in the United States’ economy. That is the main reason why growth in Mexico will slow from over 7% last year to 4% this year, according to the government’s forecast. Others say the figure could be lower. Like a small boat towed behind a big ship, Mexico’s economy is able to go where America’s goes, but risks being buffeted in its wake.

This week, DaimlerChrysler announced that over the next three years it will shut three of its car plants in Mexico, shedding 2,600 jobs, nearly a quarter of its local total. That is part of a worldwide cost-cutting drive, and the company will keep open its modern plant in northern Mexico. But it is still a worrying portent. Cars and car parts make up a fifth of Mexico’s exports. Nearly two-thirds of the cars made in Mexico go to the United States.

Even so, some economists argue that Mexico will not suffer too badly in an American slowdown, because companies with factories in both countries will move more of their production south of the border, where labour costs are lower. But American trade unions are also stronger. Mexico’s cheapness will not necessarily save it.

The American slowdown will have other effects too. The trade deficit will grow, pushing the peso down, which will raise inflation. Few economists now take seriously the central bank's inflation target of 6.5% this year. And if the price of oil, which provides about a third of government income, continues to fall, there may be budget cuts.



Recessions are unpleasant for the United States, but horrible for much-poorer Mexico. So Mr Fox would like to draw the Mexican boat closer alongside the American one. At the World Economic Forum in Davos last week, he renewed his call for a "NAFTA-plus", a club more like the European Union, in the hope of closing the gap between Mexico and its partners.

Cowboy-booted ranchers

When he welcomes Mr Bush to his ranch on February 16th, Mr Fox will doubtless cement a personal bond. Both the new presidents are religious, entrepreneurial, cowboy-booted ranchers. But Mr Fox's policy ideas about extending co-operation often sound vague and unrealistic. Mexicans will be looking for signs of concrete agreements.

For instance? On drugs, Mr Fox will be heartened by a move in the United States' Congress to repeal a much-resented provision under which it "certifies" Mexico's drug-bashing efforts. On migration, Mr Fox proposes a guest-worker programme to improve conditions for Mexicans working north of the border. Mr Bush is said to favour that. But Mr Fox still hints at opening the border completely in the long term. In the United States, the mere idea raises hackles.

Another likely topic of discussion is energy. Notwithstanding this week's agreement, the scope for co-operation is limited. Mexico, like California, faces energy shortages. Nationalist fervour has kept the energy industry all-but closed to foreign money for decades. And though Mr Fox talks of the need for foreign investment, he has also made comments, notably at his swearing-in last December, suggesting that he is reluctant to confront its opponents.

Mr Fox's immediate task, however, is to cushion the blow from the United States' slowdown. He has urged Mexican firms to seek more trade with Europe. But even boosted by a free-trade agreement signed last year, Mexico's exports to the EU are dwarfed by what it sells to NAFTA.

Much may turn on Mr Fox's plan for tax reform. This would increase the tax take from 11% of GDP to 16% or 17%, allowing more social provision while making government revenues less dependent on oil. Its approval by Congress would almost certainly win Mexico investment-grade status from Standard & Poor's, one of the two big credit-rating agencies (the other, Moody's, gave it the grade last year). That would allow Mexican firms to borrow more cheaply.

But the tax increases, which may include levying VAT on food, will be unpopular, and hard to negotiate politically, especially as growth slows. The new government got this year's budget through the opposition-controlled Congress only by agreeing to increase the fiscal deficit. It would be ironic if Mr Fox, Mexico's most pro-business and pro-American president for half a century, were to be capsized by recession north of the border.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Chile

Democracy's test

Feb 1st 2001 | SANTIAGO
From The Economist print edition

Contrary to predictions, the case against General Augusto Pinochet continues to advance through the courts

Get article background

AP

HAD they been told that a Chilean judge had ordered the arrest and trial of General Augusto Pinochet for murder and kidnapping, many Chileans would once have had to pinch themselves to confirm that they were awake. But such has been the gathering momentum of change in Chile since October 1998, when the former dictator was first detained in London, on the order of a Spanish magistrate, that Judge Juan Guzman's order on January 29th had an air of inevitability about it.

Two days later, General Pinochet was formally notified of the order, at his holiday home by the sea, where he was placed under house arrest. It appears that he was spared the normal procedure of having his fingerprints and photograph taken. Even so, his arrest is a sign that, 11 years after the former dictator was forced out of power, Chile is at last moving towards full democracy.

Unlike the arrest warrant for the general issued by Mr Guzman in December, this order may stick, for a while, at least. An appeal is unlikely to be heard until March. The judge has gone through all the procedures. And General Pinochet himself is partly to blame for his present predicament. Apparently defying the advice of his lawyers, he had agreed to be questioned by Mr Guzman. The interrogation, carried out in General Pinochet's Santiago home, helped Mr Guzman to decide that the 85-year-old general was fit for trial. Though his mental health is not quite what it was, that "does not prevent him from exercising his legal rights and defending himself," the judge ruled.

The questioning also provoked another breach in the army's public façade of unanimous denial that atrocities took place during the 1973-90 dictatorship, especially in its early days. In his answers to the judge, General Pinochet blamed local military commanders for the executions of political prisoners by a military death-squad, known as the Death Caravan, on which Mr Guzman's investigations centre.

That prompted Joaquin Lagos, a retired general who in 1973 was in command in Antofagasta, a city visited by the death-squad, to go on television with his own account—the first time he had told his story publicly. He spared no details: "I was ashamed to see [the bodies]. They took out their eyes with knives, broke their jaws, their legs and then killed them." He said that he had reported the killings in writing to General Pinochet, who asked him to alter his report.

Until recently, it was expected that General Pinochet, who last month underwent court-ordered medical tests, would be declared unfit for trial. That is reported to be what the centre-left government of President Ricardo Lagos, anxious not to be permanently distracted by the Pinochet case, would have preferred. Defence lawyers are likely to cite the general's health in any appeal against the order.

The reaction of the armed forces to the arrest order was more muted than in December, but they were no less upset. Last month they had revealed the whereabouts of the bodies of some people, including Death Caravan victims, who "disappeared" during the dictatorship. The disclosures were a bid to regain the respect of society, but also to close human-rights cases which, in the absence of bodies, have been considered by the courts to be continuing kidnappings, and so are deemed not to be covered by an amnesty law left in place by the dictatorship.

General Ricardo Izurieta, the moderate army commander, is now being criticised for political naivety by diehard *Pinochetistas*. The trial of the old general might speed up those of other former officers: if the former dictator is not, after all, above the law, then nobody else is.

The army may yet express its anger in gestures of defiance. This would not threaten Chile's institutional stability. But it would put pressure on the higher courts to find General Pinochet unfit for trial. The outcome will show whether Chilean democracy has at last come of age.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Batlling in Uruguay

Feb 1st 2001
From The Economist print edition

URUGUAY has been a proud exception to the privatising wave that swept through South America in the 1990s. Its state-owned firms are more efficient than many of their counterparts in Argentina and Brazil ever were. In 1992, Uruguayans voted in a referendum against privatising telecoms. They rightly observe that some of Argentina's sales were botched, creating inefficient private monopolies. And with unemployment at 15%, nobody is enthusiastic about the job cuts privatisation would involve.

That leaves President Jorge Batlle with a problem. Uruguay has been in recession for the past two years, mainly because of low prices for its agricultural exports, and because of Argentina's woes. But public debt is at 45% of GDP, and rising. Some economists argue that privatisation would give a boost to the economy, by attracting foreign investment, and by lowering costs. CERES, a think-tank, having compared tariffs for public services in Uruguay and its neighbours, believes liberalisation could save businesses and households the equivalent of 4% of GDP annually, raise growth and produce a net 45,000 jobs.

The polls that show continuing support for public ownership also show growing opposition to monopolies. So Mr Batlle plans to keep the state firms, but let private ones either compete with them or bid to operate their services under contract.

The opposition Broad Front and the trade unions are resisting. They have gathered enough signatures to demand a "public consultation" next month on a new law to allow private operators in the ports and railways—a referendum on whether to hold a referendum on the issue. Alberto Bension, the finance minister, admits the vote will be a crucial indicator of how far the government can push. But he notes that, since 1992, attempts to overturn laws by calling referendums have flopped.

The liberalisation of telecoms has already begun. Bell South, an American firm, is the first private cell-phone operator. There are plans to license others, and talk of allowing competition for fixed-line telephones. A new law allows private companies to import gas from Argentina to generate electricity in competition with the state utility. Another plan would strip Ancap, the state oil firm, of its monopoly of imports. It has already been allowed to seek a private partner to modernise its refinery.

Harder tasks lie ahead. The state-owned banks are saddled with problem loans to farmers and home owners. And Mr Batlle shows no appetite for cutting the bloated bureaucracy.

After a year in office, the president is popular. He has created a cross-party commission to investigate "disappearances" during Uruguay's military dictatorship of 1976-85. The unions are weakened by unemployment. At CERES, Ernesto Talvi argues that Mr Batlle should note his own strength, and push ahead more boldly. But that is not the Uruguayan way.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Globalisation trashed in Brazil

Feb 1st 2001 | SAO PAULO
From The Economist print edition

"BOVÉ is my friend—mess with him and you mess with me!" activists chanted this week at the World Social Forum, held in Porto Alegre, in southern Brazil, as an anti-globalisation counterpoint to the World Economic Forum's traditional gathering of fatcats in the Swiss resort of Davos. José Bové, a French farmer famed for wrecking his local McDonald's, was the star turn at "anti-Davos", especially after he joined leaders of Brazil's Landless Movement on an excursion to destroy a plantation of genetically modified soya owned by Monsanto, an American company. He was briefly arrested and threatened with deportation, but was later allowed to stay. Protesters trashed a nearby McDonald's in his honour.

No matter that many Brazilians might ask why a gathering supposedly dedicated to ending poverty and inequality should champion a defender of Europe's farm protectionism, which hinders exports from Brazil and other poor countries. The forum had other priorities. These were to promote alternatives to the "neoliberal" orthodoxy of free trade, free markets and privatisation: a familiar wish-list, such as cancelling third-world debt, a worldwide tax on financial transactions, workers' rights and more care for the environment in trade accords.

In the lecture halls, an international cast of leftish intellectuals trotted out phrases like "cultural Fordism" and "social fascism", while outside protest groups—feminists, anti-racists, gays—threw tantrums at not getting enough space on the agenda.

The meeting also agreed that big protests should be organised at the 34-country Summit of the Americas in Quebec in April, in opposition to the proposed Free-Trade Area of the Americas (FTAA). That should challenge governments, such as Brazil's, which say they favour regional free trade, but have done little to persuade their voters that it will bring higher growth and thus less poverty.

The forum was the brainchild of Bernard Cassen, the editor of *Le Monde Diplomatique*, a French journal. It was co-sponsored (at taxpayers' expense) by Olivio Dutra, the local state governor, from the left-wing Workers' Party (PT). Luiz Inacio Lula da Silva, the party's leader and likely candidate in next year's presidential election, was a guest of honour.

The protesters' antics for the cameras will have done Mr da Silva no good. Brazilian voters increasingly like the PT as a party of honest local government. But when it portrays itself as a bunch of radicals with a taste for a punch-up, it does little to convince voters that it can be trusted to run the country.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Ecuador

Collateral damage

Feb 1st 2001 | QUITO
From The Economist print edition

Get article background

GUSTAVO NOBOA, Ecuador's sixth president in five years, is trying to haul the country out of an economic slump. This week his government was firmly resisting an "uprising" by Indian farmers, several thousand of whom blocked roads around Quito, calling for the withdrawal of recent increases in the price of fuel and cooking gas that the IMF had insisted on. On top of that, he must now grapple with an escalating set of problems from an unlooked-for source: the United States-backed Plan Colombia.

Drugs, killings, kidnapping and extortion have all moved into once-peaceful Ecuador. In the past two months, 21 Colombians have been shot in vendettas in the streets of Lago Agrio, a town in Sucumbios province 29km (18 miles) south of the border. Outside the town, which is the centre of Ecuador's oil industry, police have been shot at. Some residents are fleeing, after threats to blow up state-owned oil installations. "It's a reality, the fire of Colombia is starting to burn us," says Maximo Abad, Lago Agrio's mayor.

Last month, six people were killed when the army found two cocaine-processing laboratories and a factory making uniforms for Colombia's FARC guerrillas in Sucumbios. One of the labs was new, and could make 200kg of cocaine a week. In October, ten foreign oil workers were kidnapped from an oilfield run by Repsol-YPF, a Spanish firm. There have since been three bomb attacks on Ecuador's main oil pipeline, the second of which killed five people in a passing bus.

The armed forces are said to have sent an extra 2,000 troops to the border area, bringing the total to 3,500. But the troops are poorly equipped, and patrolling the 600km border is hard. Much of it is jungle.

Ecuadoreans worry that the oil industry, their main foreign-exchange earner, is vulnerable to further violence. And the local economy in Sucumbios is suffering. Since August, retail sales, tourism and tax collection have all plunged. Open unemployment is now up to 20%, according to the local chamber of commerce. Meanwhile, there is an influx of refugees; most go back again to quieter parts of Colombia, but some 2,300 have asked to stay in Sucumbios.

To cope with all this, local officials want aid from the government—and Mr Noboa wants extra cash from the United States. Until now, Ecuador has been a fairly willing ally in the Americans' drug war. In 1999, Jamil Mahuad, Mr Noboa's ousted predecessor, signed a ten-year agreement allowing the United States to use a military airfield at Manta for anti-drug surveillance flights. The United States is spending $67m on improving the airfield, which partly replaces facilities in Panama that it relinquished last year.

Ecuador is charging no rent for the base, and has received just $8m to protect its northern border from fugitives displaced by Plan Colombia. It wants much more. Heinz Moeller, the foreign minister, is going to Washington this month to seek support for a "buffer zone" on the border, with social projects to offer an alternative to drugs and crime. This would cost up to $60m a year over five years. "They should look on it as a kind of insurance policy," says Mr Moeller.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Peru

A nightmare returns

Feb 1st 2001 | LIMA
From The Economist print edition

PERHAPS the most perverse side-effect of the utter discredit into which the regime of Alberto Fujimori, Peru's former president, has now sunk is that it has served to rehabilitate his predecessor, Alan Garcia. On January 27th Mr Garcia returned home, after almost nine years as an exile, to launch his campaign for the presidential election due on April 8th. The sight of him stepping on to the tarmac at Lima's airport, arms raised in salute to cheering supporters, was a sign that democracy had returned—but it sent chills through many Peruvians.

Reuters

Garcia leaves them aghast

During his presidency, from 1985 to 1990, Peru suffered hyperinflation, the economy shrank and the government seemed powerless in the face of a Maoist insurgency. Credit dried up, because he limited debt payments to 10% of exports. He even managed the unlikely feat of making bankers popular, when he tried to nationalise Peru's banks.

That was then. Now, Mr Garcia's return is simplifying what was a wide-open election. One effect is to help the front-runner, Alejandro Toledo, an economist of Andean Indian descent who was Mr Fujimori's chief opponent in a rigged election last year. Mr Toledo, with over 30% in the polls, has been distrusted by middle-class voters, who see him as an impulsive hothead. But such voters fear Mr Garcia more. And Mr Toledo is working hard to woo the centre: he has appointed Pedro Pablo Kuczynski, an investment banker, as his chief economic adviser.

According to Apoyo, a polling company, Mr Garcia has the support of around 12%, though two-thirds of respondents say they would never vote for him. That may change, however, and he might yet force Mr Toledo into a run-off. Aged 51, Mr Garcia is burlier than he was, but still has the looks, oratory and political skills of a classic Latin American populist, as he showed at a packed election rally within hours of his arrival.

There he promised cheap loans for farmers and lashed out at privatised utilities, but said he no longer favoured state takeovers, and that he would seek to negotiate, rather than decree, lower debt payments. "Globalisation is a fact. We have to give social justice through other instruments," he argued.

Investors will be hard to convince. "These are all the same old policies. We'll see if people will allow themselves to be fooled again," says Alfredo Thorne, of J.P. Morgan Chase, an American bank.

Other candidates are vying to challenge Mr Toledo. But Mr Garcia has some advantages. His American Popular Revolutionary Alliance (APRA) is the strongest among Peru's weak parties. Several of its former officials worked for Mr Fujimori's regime, organising support in shantytowns and in the provinces. They may now return to Mr Garcia.

Perhaps Mr Garcia's biggest advantage, though, is that he has been out of Peru for the past decade. Each week brings more revelations about the web of corruption spun by Vladimiro Montesinos, Mr Fujimori's fugitive spy chief. Mr Montesinos filmed his bribery and extortion on videos, 700 of which are in the hands of prosecutors.

Now, Mr Montesinos appears to be trying to play tricks from afar. An unnamed former bodyguard of his popped up to accuse Valentin Paniagua, Peru's caretaker president, of having taken $30,000 in campaign

cash from Mr Montesinos. Mr Paniagua was widely believed when he dismissed the smear as an effort to “destabilise” his government. More seriously, a congressional committee investigating Mr Montesinos has been distracted by the leaking of video footage in which one of its members is shown receiving cash from an associate of the former spy chief. That in turn has damaged at least one presidential hopeful.

“I’m not in any video,” Mr Garcia proclaims. A decade ago, he was accused of taking kickbacks for depositing Peru’s reserves in BCCI, a corruptly-run bank; and for a contract to build an electric rail line in Lima arranged with Bettino Craxi, an Italian prime minister (now dead) who was himself convicted of corruption. But he denies it all. And a warrant for his arrest has lapsed.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The sorrow of India

Feb 1st 2001 | DELHI
From The Economist print edition

AP

The effects of the most destructive earthquake in independent India's history were made worse by human shortcomings

"THE sort of devastation you might expect from a nuclear explosion," was one rescue worker's description of what an earthquake had done to parts of the western state of Gujarat on January 26th. The disaster has stunned a country already too well acquainted with natural furies. About 25,000 people died, guesses the state's government; others fear as many as 100,000 could still be lying under the rubble. The United Nations thinks that 60-80% of the 5m people living in Kutch, a largely barren district bordering Pakistan where the quake had its epicentre, and in the five surrounding districts, are "highly affected" by the quake. Estimates of the economic cost to one of India's richest and most industrialised states are also colossal and vague: the state's chamber of commerce put property damage at 250 billion rupees (about $5.5 billion) and production losses at 4.5 billion rupees a day. Even on the more conservative estimates, the earthquake is independent India's worst disaster.

Help is coming. Teams from Britain, Russia, Turkey and elsewhere joined the Indian armed forces in searching for survivors, and celebrated the few they were able to pull out of the rubble. Money, manpower and material are coming from the central government, multilateral bodies such as the World Bank, dozens of foreign governments and NGOs and Gujarat's prosperous business houses. A plane-load of medicines, blankets and tents arrived from Pakistan, India's long-standing antagonist, which India accepted with as much grace as it could muster. A militant group opposed to Indian rule in Kashmir offered 100 pints of blood. Volunteers are bringing in cars full of food.

The scale of the disaster has muffled, though not silenced, the usual criticism of officialdom. "All officials are themselves victims," points out one foreign helper. It is "quite remarkable that so many have shown such fortitude."

Along with heroism, there is chaos. Supplies are piling up at the airport in Bhuj, the district capital, where there are too few lorries to transport them and too little information to direct them to where they are most needed. Relief agencies say that the hardest-hit towns, such as Bhuj, are getting help while outlying villages are being neglected. Four days after the event, small villages just ten kilometres (six miles) from Bhuj had not been reached, says an official of Oxfam, a British-based charity. Some have received rice but no water for cooking it. Relief lorries are being looted by desperate villagers.

This is happening in part because there is not enough co-

ordination among the agencies that have so commendably rushed to help. These include not only the state government, which has the main responsibility for disaster relief, but also foreign and local NGOs, each with its own ideas. The director of one NGO based in Ahmedabad, the commercial capital, says he knows of “more than four co-ordinating mechanisms”. “Everybody is just confused right now,” says Namrata Bali, of the Self-Employed Women’s Association, which has sent teams to help 200,000 members who have been affected.

The confusion may now begin to clear as the United Nations’ Office for the Co-ordination of Humanitarian Affairs, which many NGOs expect to co-ordinate the work of non-government agencies, finishes assessing the damage. Attention is now shifting from rescuing people to keeping them healthy, providing shelter and restoring their shattered livelihoods.

What happens before disaster strikes and long after journalists have forgotten it matters even more than rescue and relief. No one will ever know how many people were killed by shoddily constructed buildings allowed by lax inspectors and inadequate building codes, but the suspicion is that the number is high. Two years ago India’s urban-development ministry published a report calling for states to upgrade building codes and promote the strengthening of existing buildings. Almost all state governments ignored it. Experts lament that neither the central government nor most states have agencies dedicated to disaster planning. The agriculture ministry handles disasters for the central government, an arrangement born of the view that farmers and the food supply are most at risk after catastrophes.

The Gujarat calamity has prompted the usual introspection. The prime minister, Atal Behari Vajpayee, has said he will set up a national disaster agency. Legislation is in the works to encourage states to improve planning and prevention. But the usual fate of such ideas is that they die once the emergency passes, or are ignored even if they survive the journey from proposal to policy.

Neglect can also halt recovery from disasters. CARE, an International NGO, had wanted to build 5,000-10,000 houses for victims of a cyclone that struck the eastern state of Orissa in November 1999, but has money enough only for 1,400. Its chief in India, Tom Alcedo, guesses that CARE can afford to build only a fifth of the planned 1,000 cyclone shelters, which were to double as schools. “Funding has all but dried up for Orissa,” he says.

The same will happen with the even greater tragedy in Gujarat without the attention of government, the tenacity of private charities and the generosity of donors. It took a minute to destroy Kutch. It will take years to rebuild it—safely.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Indonesia

Getting worse for Gus Dur

Feb 1st 2001 | JAKARTA
From The Economist print edition

Parliament's censure of Indonesia's president raises doubts about his future

IT HAS not been a good week for President Abdurrahman Wahid. On February 1st, parliament first voted to accept a report that implicated him in two financial scandals and then censured him, thus moving a step closer towards seeing the back of him. The investigators could not find any solid evidence of a crime. But their report raised enough suspicions to energise Mr Wahid's opponents, who are hoping to impeach him by the middle of this year. While thousands of people demonstrated outside—both for and against the man they call Gus Dur—legislators were sufficiently concerned that they decided both to issue a formal censure and to hand the matter over to the authorities.

Reuters

Wahid stays cool in the middle of it all, but the laughter may fade

The most inflammatory language in the report, which looked into both an embezzlement and a shady donation from Brunei's sultan, accused Mr Wahid of "misuse of authority", "lying to the public" and "giving birth to a new KKN"—KKN being Indonesian shorthand, originally used by the protesters who toppled ex-President Suharto, for corruption, collusion and nepotism. Those would be strong words anywhere, but they are especially damning for a man who vowed on taking office 15 months ago to end the ways of the Suharto era.

The investigators clearly did not believe Mr Wahid's sketchy version of events. He claims that his own involvement in the two scandals was limited to his efforts to channel aid to Indonesia's troubled provinces. Mr Wahid has already admitted that, over a year ago, he approached the deputy head of Bulog—the national food agency—and asked him to provide funds for Aceh, a war-torn province with a strong secessionist movement. But the president claims he abandoned this effort when told that it would require a presidential decree. Instead of issuing one, Mr Wahid says, he turned to the less meticulous sultan of Brunei, from whom he admits accepting a $2m donation.

Mr Wahid thus claims that he knew nothing about Bulog's illegal disbursement of 35 billion rupiah ($3.7m) early last year, to a group of dodgy characters led by his personal masseur. The masseur, a man named Suwondo, approached Bulog's deputy head after the official's meeting with Mr Wahid, and claimed to be acting on the president's behalf. After questioning those involved in the Bulog scheme, the parliamentary investigators found it hard to believe that Mr Wahid was ignorant of the whole affair.

Since there are no expensive hospitals springing up in Aceh, the commission also tried to trace the money given by the Sultan of Brunei. It found some discrepancies in Mr Wahid's story—he listed a few other provinces that received funds, while the man who disbursed the money for him gave a different list. But, again, the commission found no hard evidence that Mr Wahid had lied or misused the money. Without forcing him to account for the funds, it will be hard to establish any guilt.

Parliament could have chosen simply to issue a reprimand. Instead, it opted"—by agreement, without a vote"—for censure. This acts as a formal warning. Under the constitution, the president can be removed only by the People's Consultative Assembly (MPR), which combines parliament with regional representatives. Censure gives Mr Wahid three months to explain himself. If, after a second warning and a final month to respond to it, parliament does not like his answers, it can then call a special MPR session to unseat him.

It is hard, in Indonesia's fluid new democracy, to make any firm predictions about the final outcome. But,

by handing the investigation over to the courts, parliament evidently hopes to draw out more facts and, if more damaging information is indeed forthcoming, impeachment may follow. Regardless of parliament and the judiciary, street demonstations could yet force Mr Wahid to step down anyway.

Though impeachment is by no means a foregone conclusion, Mr Wahid is fast losing ground on both the legal and the political fronts. He has tried to discredit the legality of parliament's inquiry, largely by concentrating on minor technical issues. But, apart from his own faction, which has just 10% of the seats, parliament has simply brushed his complaints aside.

Politically, moreover, Mr Wahid continues to make matters worse for himself. He has behaved wilfully and erratically, and shows no hint of getting a grip on the country's problems. At one point this week, he even threatened to disband parliament: that nobody took him seriously is soothing, but hardly encouraging.

About the only thing propping Mr Wahid up at the moment is the lukewarm support of his vice-president, Megawati Sukarnoputri. She controls the biggest faction in parliament, but many in it are demanding Mr Wahid's removal. So it may not be long before even she turns a cold shoulder.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Thailand's elephant music

Feb 1st 2001 | LAMPANG
From The Economist print edition

THE elephants of Thailand used never to be short of work hauling timber. But most of the country's forests have been cut down, and logging is now banned to save the few that are left. The number of domesticated elephants left in the country is now only 2,500 or so, down from about 100,000 a century ago. Though being the national animal of Thailand earns an elephant plenty of respect, that does not put grass on the table. Thai elephants these days take tourists on treks or perform in circuses, and are sometimes to be seen begging for bananas on the streets of Bangkok.

Some of the 46 elephants living at the Thai Elephant Conservation Centre, a former government logging camp near Lampang, have found a new life in music. The Thai Elephant Orchestra is the creation of two Americans, Richard Lair, who has worked with Asian elephants for 23 years, and David Soldier, a musician and neuroscientist with a taste for the avant-garde. They provided six of the centre's elephants, aged seven to 18, with a variety of percussion and wind instruments. Those familiar with Thai instruments will recognise the slit drums, the gong, the bow bass, the xylophone-like *renats*, as well as the thundersheet. The only difference is that the elephant versions are a bit sturdier.

The elephants are given a cue to start and then they improvise. They clearly have a strong sense of rhythm. They flap their ears to the beat, swish their tails and generally rock back and forth. Some add to the melody with their own trumpeting. Elephant mood-music could have a commercial future, Mr Soldier believes. He has even produced a CD on the Mulatta label—it is available at www.mulatta.org—with 13 elephant tracks. It is real elephant music, he says, with only the human noises removed by sound engineers. But is it music? Bob Halliday, music critic of the *Bangkok Post*, says it is. He commends the elephants for being "so communicative". Anyone not knowing that it was elephant music, he says, would assume that humans were playing.

Some of the elephants in the band have also tried their hand at painting, tending to favour the abstract over the representational style. Their broad-stroke acrylic paintings last year helped raise some $25,000 at a charity auction at Christie's in New York, and a London gallery has also taken some of their work. These art sales, together with profits from the CD, are helping to keep the centre going. A second CD is on the way. It will be less classical, more pop.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Myanmar

Signs of a thaw?

Feb 1st 2001
From The Economist print edition

WHAT is going on in Myanmar? European diplomats ventured into the capital Yangon, formerly Rangoon, this week to discuss the junta's recent charm offensive, and came away little the wiser, though there are plenty of encouraging signs. On January 26th it was revealed that the government had freed over 80 political prisoners. One of them was Tin Oo, the vice-chairman of the National League for Democracy, which won an election in 1990 that the generals have never honoured. The prisoner release followed an announcement by the UN that Aung San Suu Kyi, who heads the NLD and has been consistently demonised by the government, had been meeting some of the junta's top generals.

Both of these gestures are extraordinary. The generals have been rounding up NLD members relentlessly over the past couple of years, in an effort to eradicate any remnants of an opposition. They have been even more dogged in their efforts to discredit Miss Suu Kyi, who won the Nobel peace prize for opposing them and who remains the rallying point for the regime's detractors around the world. Last August the government blockaded a road for days to prevent her from visiting supporters outside the city. Since then she has been under virtual house arrest.

So why have the generals suddenly relaxed their grip? The most likely answer is that they think they can afford to, not that they have to. Though western countries maintain sanctions against the regime, it is hard to believe that it is now buckling. Most Asian countries are still happy to do business with Myanmar, and China especially is doing roaring cross-border trade.

Nor should one read too much into reports of a split between reformers and hardliners. Trade restrictions and multi-tiered exchange rates do indeed distort some parts of the economy grotesquely. And Khin Nyunt, one of the junta's top generals, does appear to support making some changes. But there is not much chance of anything dramatic happening. "The thing that they all agree about is that any economic reform would cause chaos in the country," says one western businessman who pops in and out from Thailand. And although the government's growth figures are overblown, the economy is nevertheless slightly expanding, rather than contracting.

Moreover, even the "reformers" within the junta have little interest in loosening up politically. They do not think they need to do so to improve the economy, and they certainly do not feel vulnerable politically. The military regime, says a recent report by the International Crisis Group, a think-tank, is "as strong as at any time in the country's history". The army has roughly doubled in size since 1988, when it bloodily suppressed a wave of protest and installed itself in power.

Unfortunately for Myanmar's democrats, the generals appear to be so well entrenched that they can now afford to work on their public relations. There is no harm in releasing opponents if the opposition is no longer a threat. And if Miss Suu Kyi is becoming irrelevant, there is no harm in meeting her to discuss the terms of surrender.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Australia

To arms

Feb 1st 2001 | SYDNEY
From The Economist print edition

FOR many years, Australia's defence planners had to battle to justify their existence. Australian troops have not been involved in a war since Vietnam's 30 years ago, and defence chiefs were hard pressed to identify any threat to Australia's security that might call for their deployment again. But with the upheavals in Indonesia and East Timor on Australia's northern doorstep, all that has changed. This year, Australia is embarking on a big upgrade of its defence forces that will cost an extra A$23.5 billion ($12.8 billion) over the next decade.

The boost follows a defence review prepared by the conservative coalition government of John Howard. The review was prompted by the turbulence across Australia's once calm northern approaches in the Timor Sea and the South Pacific. Since East Timor exploded into bloodshed after its vote for independence in 1999, there have been conflicts in the Solomon Islands, Fiji and the Indonesian provinces of Irian Jaya, Aceh and Ambon. Paul Dibb, a Canberra-based defence analyst, and author of an earlier government paper on defence, speaks of an "arc of instability". The latest review puts it bluntly: "Australia cannot be secure in an insecure region."

AP

Australia's leading role

Not so long ago, such talk was considered alarmist. Australia's regional defence strategy was linked firmly to ANZUS, its military treaty with the United States and New Zealand, forged 50 years ago. After the cold war, with no immediate danger in sight, Australia's armed forces felt the pinch of government parsimony. Recruitment to the armed forces last year fell short of its target by 25%, while 13% of those already in uniform left. The results of a decade of rundown became apparent in 1999 when Australia was called upon to lead an international peacekeeping force in East Timor.

Although the 5,000 Australian soldiers deployed to East Timor did a commendable job, the exercise stretched Australia to the limit; some of the troops had to be ferried from Darwin across the Timor Sea in a hired ship. If another nearby conflict had called for a simultaneous intervention, Australia would probably not have been able to respond.

Yet East Timor seems to have emerged as a model for the sort of go-it-alone role Australia may have to play in and around the Pacific in future, without the benefit of American involvement. Colin Powell, the United States' new secretary of state, told a Senate hearing in Washington recently:

> In the Pacific we are very, very pleased that Australia...has displayed a keen interest in what's been happening in Indonesia. And so we will co-ordinate our policies, but let our ally, Australia, take the lead as they have done so well in that troubled country.

His remarks may have boosted egos in Canberra, though they did little to help Australia repair its relations with Indonesia, still ruptured since the East Timor imbroglio. But that intervention and subsequent events in Indonesia also taught Australia's defence planners a big lesson. The defence review calls for a restructuring of the country's forces, so that it is capable of mounting more than one offshore operation simultaneously, if necessary.

The army will expand from four to six the number of infantry battalions ready for rapid deployment. There will be more ships and aircraft laid on to move them. Australia's air-defence system, based on 71 F/A-18 combat aircraft, will be upgraded and expanded. The aim is to increase the number of people in the defence force from 51,500 to 54,000, and defence spending from A$12.2 billion a year to A$16 billion a year, by 2010.

If the economy continues to grow over the next decade as fast as over the past two, this would keep defence spending at 1.9% of GDP, very much as now. Some people think that that is plenty: the archipelagos and island states to the north are unstable, but no one is going to invade Australia. Yet Indonesia is close, and some critics believe Australia should be spending more.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Our Malays are happier than yours

Feb 1st 2001
From The Economist print edition

Reuters

Mahathir and Goh: malaise

WILL they ever learn to get along? Malaysia and Singapore, which separated from each other 36 years ago, continue to spar over everything from the water that Malaysia sells its neighbour to customs posts and air space. On February 7th, Malaysia's deputy prime minister, Abdullah Badawi, is due to kick off a three-day visit to Singapore, in a continuing effort to patch up their differences. But the strait that divides them seemed to grow wider this week, when a fresh row broke out over race relations.

Malaysian officials, dutifully backed up by the local press, have been venting their indignation after some comments that Singapore's prime minister, Goh Chok Tong, made recently to a group of Singaporean Malays. Although ethnic Malays account for some 55% of Malaysia's population, they are only a 10% minority in Singapore, which is predominantly ethnic-Chinese. Many Singaporean Malays resent the Chinese dominance, but Mr Goh suggested that in several ways they were better off than Malays across the strait.

He pointed out, for example, that a quarter of Singapore's Malay workers boast an upper-secondary education or better, compared with only 14% of Malaysian Malays. This, in turn, is responsible for a higher proportion of workers in highly-skilled jobs. In 1998, some 23% of Singaporean Malays held administrative or professional posts, compared with 16% of Malaysian Malays, according to Mr Goh.

These are awkward facts for Malaysia's government, which holds official preferment for its Malay majority of *bumiputras*, sons of the soil, as sacrosanct: they are given preferential access to university places, and guaranteed 30% ownership of local companies. To what effect? Though Malaysia's economy has grown impressively over the past few decades—thanks to free trade and a competent bureaucracy—Singapore's smaller meritocracy has grown much more rapidly, leaving everyone there better off.

Malaysia's foreign minister, Syed Hamid Albar, retorted this week that Mr Goh's remarks were "full of innuendoes questioning the effectiveness of the Malaysian government". Many Malays in Malaysia, however, are asking similar questions. If the Malaysian government's preferment policies lead to waste and corruption instead of higher growth, they say, would it not be better to scrap them? Perhaps Mr Abdullah, who is next in line to lead Malaysia when Mahathir Mohamad steps down, should take a good look around during his visit to Singapore next week.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Permanent revolution for Europe's Union?

Feb 1st 2001 | BRUSSELS
From The Economist print edition

The European Union is still bent on ambitious changes that would alter its very nature. Can they be achieved all at once?

IT SEEMS unlikely that there are many Trotskyites in the bowels of the European Commission in Brussels. Yet the European Union seems to have become addicted to a version of Trotsky's doctrine of "permanent revolution". In the course of this year, the EU will try to tackle three vast and radical tasks all at once.

First, on January 1st 2002, Europe's single currency will at last start circulating as notes and coins among some 302m people in 12 of the Union's 15 countries. Second, the EU will make a big push in its drive to (nearly) double its membership within five years. Third, a debate about writing a constitution for the Union will get going in earnest, in the hope of finally settling the division of power between the EU, its nation-states and Europe's regions. Each of these tasks is big enough on its own; setting about all at once, when each has implications for the other, is a bit like trying to ride a monocycle on a tightrope while doing a spot of juggling at the same time—a hard act, but not impossible.

Romano Prodi, the head of the European Commission, says that these days the commission feels more and more like a government. But the business of government in rich countries is conducted amid settled institutions. That is not the case for the commission, which conducts its day-to-day business against a backdrop of institutional arrangements that are subject to constant negotiation and reinvention.

That point was underlined this week, when the commission unveiled its "work programme" for the year. Much of it is the sort of legislative and administrative business that would be familiar to national governments—to do with food safety, telecoms liberalisation, foreign aid, immigration and so on. But also on the agenda are those three matters that touch on the EU's very nature: launching the euro, enlarging the club, writing a constitution.

The euro does not feature prominently in the commission's programme, because individual governments and the European Central Bank in Frankfurt are mainly responsible for issuing the new notes and coins. But the Eurocrats know that the smoothness or otherwise of the transition to the euro will deeply affect the way ordinary people think about the EU. The disappearance of historic currencies such as the German mark and the French franc may be the single most tangible act of European integration since the second world war. If all goes well, the euro will do a lot to promote the creation of a genuine pan-European consciousness among those in the euro-zone.

If the euro's introduction goes badly, controversy and bad blood will spread across the Union. And problems there may well be. The logistics boggle the mind: some 14.5 billion bank notes and 56 billion coins will have to be distributed. National notes and coins will continue as legal tender, alongside the new currency, for two months after January 2002, as people try to get used to thinking in two currencies. There will, at the very least, be irritation, if not confusion. Yet officials in Brussels sound oddly relaxed. Since the euro has already existed for two years, albeit not in people's pockets, many of them seem to be treating it as yesterday's issue.

They can't stop thinking

That may be because these days it is the constitution and enlargement that are making Eurocrats scratch

their heads most vigorously. At the EU summit in Nice in December, its 15 current members expressed the pious hope that East European countries wanting to join would be able to take part in the next elections to the European Parliament, in 2004. Yet, though the practical difficulties of inducting newcomers such as Poland remain formidable, and though many of the hard issues, such as farm reform and the free movement of labour, have yet to be dealt with, most officials in Brussels seem to believe that “enlargement is inevitable”.

A small industry has already grown up around the issue: the commission regularly issues check-lists of how each aspirant country is progressing in various respects; bevies of negotiators are working to narrow the differences. This kind of institutional momentum has a remorseless logic of its own. The Swedes, who hold the EU’s six-month rotating presidency until June, are striving to push things along.

For their part, the Belgians, who will hold the agenda-setting presidency in the second half of the year, are likely to insist that Europe needs a new constitutional settlement. Since the Belgians have always been keen integrationists, a debate chaired by them may be uncomfortable for more Eurosceptic countries like Britain. In July the commission itself will make its first formal contribution to the constitutional debate, with a “white paper” of proposals. Unsurprisingly, this is likely to suggest more powers for the commission, in particular over policies that now come under other bits of the EU.

For instance, the commission wants more say in current attempts to forge a joint foreign policy. This now falls under the aegis of the Council of Ministers, where decisions are made by national governments in concert. The commission’s morale in this debate has been lifted by Gerhard Schröder, the German chancellor (see article).

In addition, a renewed tussle can be expected over the locus of power in two particular areas: taxation and defence. The commission is soon to issue a “discussion document” on the future of the EU’s taxation policy. This is being widely advertised in Brussels as a pragmatic retreat from plans for wide tax harmonisation within the Union. But the desire among Eurocrats for more integration across the board is still almost instinctive; many still talk of “harmful tax competition”, and would still like to narrow big differences in members’ corporation-tax rates. The scope for rows remains large.

Another ticklish topic which caused a stir at the end of last year, the EU’s attempts to launch its own defence arm, has been laid aside for the moment. But the twitchiness it aroused still lingers. In particular, the relationship between the EU’s proposed “rapid-reaction force” and NATO is yet to be worked out. France still wants the EU to have its own wide-ranging military planning capability. Turkey, a member of NATO but not of the EU, is still reluctant to let the Union have access to the Alliance’s facilities.

Advocates of a tighter EU used to argue that “widening” the club (by bringing in new countries) could happen only if it were also “deepened” (by fostering the “ever-closer” political union of those already in). The EU’s current leaders seem to have convinced themselves that this is still so—and that the two processes are actually linked. In 2001, it may become plainer whether they are right.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Nice Uncle Gerhard and the little 'uns

Feb 1st 2001 | BRUSSELS
From The Economist print edition

GERMANY has rarely, if ever, been seen as the natural guardian of the smaller of Europe's countries. But as other EU countries monitor the wobbling Franco-German relationship, some of the "smalls" are now looking to Germany to safeguard their interests. At the same time, some of the "bigs", and those wary of deeper integration within the EU, including Britain, Spain and some Scandinavians, are alarmed by a new spate of enthusiasm in Berlin for "ever-closer union".

This changing mood, perhaps even a shifting of the balance of power, within the Union particularly bothers the French—hence the special dinner in Strasbourg this week where Gerhard Schröder, Germany's chancellor, and Jacques Chirac, France's president, were meant to kiss and make up after their horrid falling-out at last December's EU summit in Nice.

It was at Nice that many of the club's smalls got twitchy. Both the Portuguese and the Belgians threatened to walk out in protest against treaty changes that increased the voting power of the bigs. In the past, the smalls have looked to the EU institutions to help prevent the bigs from pushing them around, with the European Commission in Brussels ensuring that EU policies and laws were made and applied impartially. And small countries had many more votes in the Council of Ministers, which brings ministers from national governments together, than the size of their populations merited.

No longer. The voting power of small countries, though still disproportionately large, has been diluted a little. And the commission has been on the defensive, under the shaky leadership of Romano Prodi. At Nice, Mr Chirac seemed to go out of his way to humiliate Mr Prodi, the small countries' presumed guardian. One small-country ambassador says that in recent months, "I really came to fear that the French, Germans, British and Spanish just wanted to sideline the commission and run the EU through a directorate of big countries."

Many smalls were therefore reassured last month when Mr Schröder attacked the "inter-governmental method" (EU jargon for big countries stitching things up) and said that the European Commission should stay strong. He also called for an ambitious new bout of institutional reforms, including a "basic law" (ie, a constitution) for the EU. Mr Prodi and his commissioners were delighted, along with the governments of Italy, Belgium and most of the smaller countries.

Britain, as ever, is uneasy. Sweden and Denmark are cautious too, since they have their own Eurosceptical populations to deal with. Spain, conscious of being one of the bigs, may also be wary of more integration. And the French, though still fond of high-flown Euro-rhetoric, have become increasingly wary of the commission, since they no longer regard it as their creature.

So Germany is at the Union's pivot, now that Mr Schröder, once viewed as Eurosceptical by German standards, is sounding keener on integration; his foreign minister, Joschka Fischer, has long been dead keen. Most of the smalls seem happy to trot along under Germany's reassuring wing. How long will it last?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Germany

A new type of farming?

Feb 1st 2001 | BERLIN
From The Economist print edition

Consumers are in a panic in Germany, and farmers in despair, over mad-cow disease. The new, Green food-and-farming minister plans eco-friendly reforms for the whole farming industry

AP

FARMERS and consumers alike in Germany have caught mad-cow disease—that is, panic about it. Bad news for the European Union's second-biggest agricultural producer (and subsidy-eater), but not altogether bad for other countries. The spreading BSE crisis, which has chopped EU beef consumption by 27% in the past three months and sent prices tumbling, is concentrating minds on the EU's farm policy as it prepares for eastward expansion and fresh world-trade talks.

The first BSE-afflicted cow was found in supposedly safe Germany in November. Only 24 more have so far been confirmed. But beef-eating has fallen by more than a half, prices by over a third. One German in three has given up eating beef entirely. Three in four say they are worried—compared with one in ten in Britain, where 180,000-odd infected cattle have been found. Germany's former health and food ministers have paid with their heads.

Ever adept at making a virtue of necessity, Chancellor Gerhard Schröder has pounced on the crisis to announce a complete reshaping of Germany's farm policies—and so to boost his image as a reformer. From now on, consumers' interests, not farmers', he says, are to be put first. He has appointed a Green—Renate Künast, a woman with no previous links with farming—to head a revamped ministry responsible for consumer protection, food and agriculture, in that order. Intensive farming is out; environment-friendly and organic farming in. The yearly DM11 billion ($5 billion) of subsidies dished out to Germany's farmers—who number 420,000, less than half of them full-time—are to be redirected accordingly. The "howls of protest" the chancellor predicts from the powerful farm lobby are, he says, to be strictly ignored.

Hitherto, Mr Schröder has shown no more interest in environmentally-friendly farming than any of his predecessors. Like them, he wanted as much produced as cheaply as possible, little matter how it was done. Under the EU's "Agenda 2000" farm reform, approved during Germany's presidency of the Union two years ago, governments are allowed to use up to a fifth of the direct farm aid they receive from Brussels to promote environmentally-friendly farming and rural development. Yet Germany had shown little interest in this.

Now Miss Künast plans to use these funds to boost organic farming, which is practised on less than 3% of Germany's farmland today, to 10% within five years (as already in Austria, though in most EU countries the figure is more like 1%). By 2010, Miss Künast hopes to see organic foods hold 20% of the market, but she accepts this may be the limit for foods that are today—and probably will remain in future—far more expensive than the products of conventional farming.

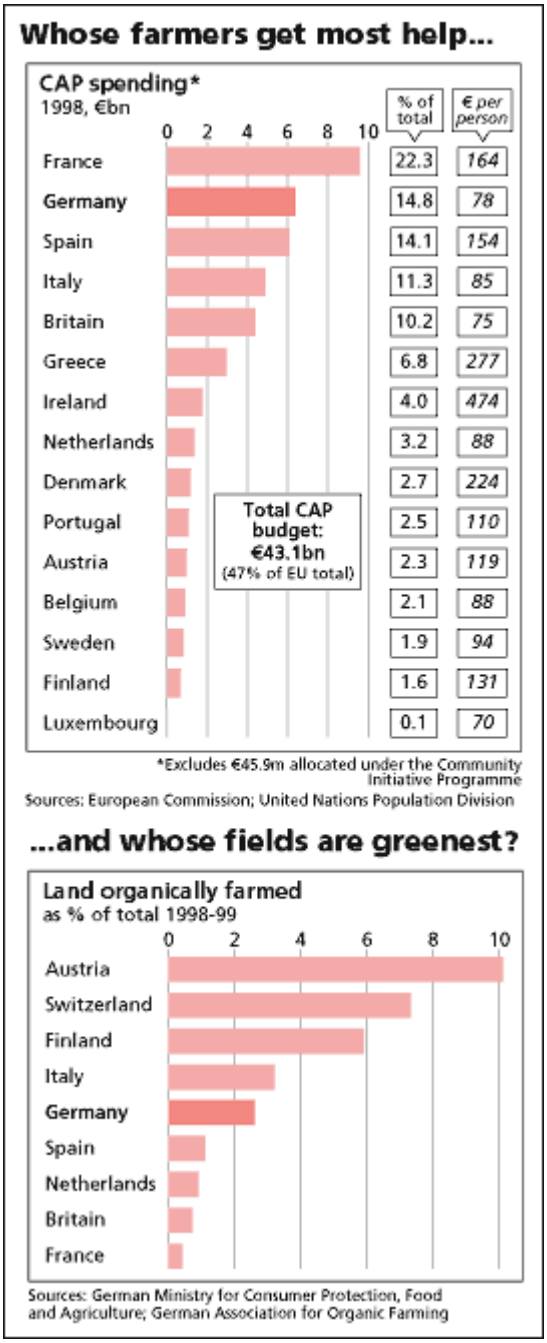
Even if her hopes come true, organic farming cannot cure all farm ills, so much of her energy will still be directed at making things better on ordinary farms. How? The details of her ideas will be revealed on February 8th, but proposals already put

forward include linking farm subsidies to far stricter environmental and animal-welfare standards; more aid for smaller farms, and less for larger, supposedly more intensive, ones; a new national food-safety agency; and a new national food-quality labelling scheme. The government will also stop supporting research into genetically modified crops.

Meanwhile, the government is struggling to contain the threat of a BSE epidemic. It has introduced mandatory BSE tests for all cattle from the age of 24 months, instead of the EU's latest requirement of 30. And despite widening demonstrations by angry farmers, it continues to insist that wherever a single mad cow is found, the whole herd must immediately be slaughtered.

Miss Künast has also reluctantly agreed to go along with EU plans to buy and destroy some 400,000 healthy German cattle, despite her own strong "ethical reservations". The aim is to get rid of up to 2m beasts across the EU, and so to stabilise prices. But even this may not be enough. The EU's farm commissioner, Franz Fischler, this week described the state of the beef market as "alarming". The BSE crisis was, he said, threatening to stretch the EU's budget to its limits; beyond them, his officials later added.

He had earlier strongly backed Miss Künast's efforts to promote environmentally-friendly reforms, saying that when subsidies were used to protect animals or the environment rather than support prices, there should be "no problem" at the World Trade Organisation. (Whether American livestock farmers will see things that way is another matter.) So such a switch could be in farmers' interests, said Mr Fischler; Miss Künast would "not have to break down doors in Brussels", he declared. "They are already wide open."



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Charlemagne

Vaclav Klaus, an unusually combative Czech

Feb 1st 2001
From The Economist print edition

BY ANY measure, Vaclav Klaus, who is both the Czech parliament's speaker and the leader of the country's main opposition party, is a most singular Central (please, not East) European. As finance and then prime minister, he ran a post-communist government for longer than any of the region's counterparts, bar Slovenia's. He achieved the rare feat of busting a country (Czechoslovakia) in two, and staying in charge of the better half. He has been as ardent as any of post-communism's free-marketeers, merrily accepting the label Thatcherite. More unusually for a Central European, he sounds more critical of the European Union than other mainstream politicians in the region. And though the pollsters say that most Czechs dislike the adversarial, arrogant, clever Mr Klaus, the pundits in Prague, his country's capital, think he still has a chance of getting back into power.

Born nearly 60 years ago, he has always been contrarian. As a young economist (and international basketball player) who managed to see a bit of the West, studying for a stint in Italy and then in the United States, he went against the Marxist grain. Along with Vaclav Havel, now his country's president, he helped found Civic Forum, the group of dissidents who led the "velvet revolution" that ousted the communists in 1989. That year he became Czechoslavakia's finance minister, rising in 1992 to prime minister, a post he held (in the bigger and then, after the break-up in 1993, the smaller country) until 1997.

In the early post-communist days, many Czechs found his bossy ways and the gusto with which he sold capitalism just about tolerable—so long as the new order produced the goods. Alas, the capitalism that emerged was too much of the crony kind. Mr Klaus was not accused of personal self-enrichment, but his regime was stained with corruption. Privatisation was bungled, to the benefit of too few. Mr Klaus was too soft on the spivs who crowded round him. A splurge of scandals eventually brought his government down.

How come, then, that he is still a force among Czechs, and may even come to influence EU politics? For one thing, he is not altogether out of power. After the last general election, he wangled a deal with the winning Social Democrats, led by Milos Zeman, who had failed to secure an outright majority in parliament. Mr Klaus's lot agreed to let Mr Zeman's run the show, provided that Mr Klaus became speaker, thereby entitling him to help set the legislative agenda. Now, as the Social Democrats begin to run out of steam, Mr Klaus and his core of friends, though still behind in the opinion polls, think they have a chance of getting back at the next election, due at the latest next year. Under the Czechs' electoral system, all sorts of party combinations are possible—and Mr Klaus is a ferociously adept deal-cutter.

For another thing, he thinks his Eurosceptical tone may start winning votes. Not that he is out-and-out hostile to the EU. A self-styled "Euro-realist", he wants the Czechs to join it—and thinks that, along with the Poles, Hungarians and others, they will. But the Czechs, he says, should be far more combative in negotiation.

Mr Klaus lauds the Union as a free-trade area, and he believes workers should be free to move across borders. But he is full of bile against Brussels, especially its bureaucracy. Under its malign guidance, the bringing together of Europeans has, he complains, been "non-genuine, non-spontaneous, non-

evolutionary and therefore artificial". Moreover, Czechs are right to be sensitive about their sovereignty, after centuries under the yoke of Habsburg Vienna and then of Moscow. Why, he asks, should "business-class Eurocrats" presume to lord it over "economy-class Slavs"? Before joining the EU, he says, the Czechs should have a referendum on the matter. This twitchier attitude is beginning to strike a chord in both Poland and Hungary. Indeed, in Viktor Orban, Hungary's aggressively right-wing prime minister, Mr Klaus may have Central Europe's nearest thing to a soulmate.

It is not certain that this Czech Gaullism, as Mr Klaus's credo has been called, will win votes. Polls suggest that two-thirds of Czechs are keen for their country, without much ado, to join the EU. Besides, say his opponents, Mr Klaus's concern for the wishes of ordinary Czechs is a bit rich, coming from the man who presided over the Czechoslovakian break-up without first bothering to test public opinion.

But Mr Klaus thinks the Union may, in any event, be going his way. He rather liked the outcome of the EU's summit in December in Nice, where the club's present members agreed to changes to let the newcomers in. What was particularly good, says Mr Klaus, was that the nation-statists appeared to fend off the "scheming federalists" who would "enforce an artificial unification of Europe". While other aspirants complain about dates of entry, Mr Klaus is unworried: the sort of Europe being built is what counts.

Mr Klaus's independent-minded nationalism manifests itself in other ways, too. He spoke out against the EU countries' diplomatic isolation of Austria after Jörg Haider's far-right party joined a coalition government last year. And though keen on the Czechs' new membership of NATO, he opposed the alliance's bombing of Serbia in 1999.

At home, Mr Klaus's tendency to get caught up in rows and political shenanigans persists. Prague recently witnessed the biggest demonstrations since the velvet revolution, in protest against the appointment of a state television director said to be too matey with Mr Klaus. Most strikingly, Mr Klaus is at loggerheads with Mr Havel, once his ally against communism. Indeed, their mutual antipathy cuts to the heart of how a post-communist society—and how Europe in general—should evolve.

Mr Klaus's flinty vision of independent states, co-operating but certainly not melding, runs against Mr Havel's consensual, welfare-conscious welcome of a cosier pan-European embrace. "I don't believe what he says, what he stands for, what he does. I don't understand his civil society," says Mr Klaus of his president. "For me it is an empty phrase...He is the most elitist person I have ever seen in my life. I am a normal person. He is not."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

That's Italian poster politics, signori

Feb 1st 2001 | BOLOGNA
From The Economist print edition

WITH three months to go before its general election, Italy is turning into Saddam Hussein's Iraq. Not in terms of freedom or variety, just visually. For Italian cities these days are peppered with enormous posters of the rival leaders, Silvio Berlusconi (for the right) and Francesco Rutelli (for the left). All each one shows is the great man's benevolent face, plus a short slogan. In Bologna's Viale Togliatti, you can count six Berlusconis and three Rutellis.

Prehistoric, as poster politics goes? Mussolinian, say oldies who recall the slogans spread hugely over walls and roofs in *il Duce*'s days. Whatever it is, Italians are enjoying it. The campaign promises to be both boring (Mr Berlusconi is way ahead) and bitter (the left hates losing). So have a bit of fun: rewrite the posters on the Internet, and spread the result around.

Mr Berlusconi began plastering Italy with his face months ago. Benign and with hair added, he now beams across squares and bridges, along roads and railway lines. The slogans are basic: *Meno tasse per tutti* (Lower taxes for everybody), or *Città più sicure* (Safer cities). Not so the costs: one poster in prime positions across Italy's main cities costs a billion lire ($480,000). Mr Berlusconi can afford it. According to Mr Rutelli, the right plans to spend 200 billion lire (30 billion is its own figure) in the campaign; the left, he moans, cannot raise even 20 billion.

Soon, though, voters started to edit the posters on the Internet. They began dressing up Mr Berlusconi as Superman, a gladiator, the pope. *Meno tasse per tutti* became *Meno tasse per Totti* (Francesco Totti is AC Roma's best-loved football player). A long-haired, hippie-looking candidate pledged to "help the bald", while *Città più sicure* came with a picture of Mr Berlusconi, who faces tax and other problems in court, behind bars. The man credited with starting the craze, a 38-year-old interpreter called Mark Bernardini, who says he is a communist, has become a celebrity. His website had 1m-plus visits in 100 days.

At this point, Mr Berlusconi decided to beat the mockers by joining them. On his Forza Italia movement's website, he launched a competition for the funniest poster, and promised to deliver the award in person. He may even have to award it to himself for his latest poster, whose slogan is, "A working-class president to change Italy": Mr Berlusconi is one of the country's richest men. On the left, Mr Rutelli decided to plunge into his (half-empty) campaign coffers to have megaposters of his own.

Should red-blooded voters find it all too civilised, others have stepped in. A website has launched "Virtual Bashing", where visitors can beat up Messrs Rutelli and Berlusconi, whichever they choose, for a minute. Mr Berlusconi is ahead there too: 57% of all punches have been landing on him.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Turkey and the Armenians

That controversial G-word

Feb 1st 2001 | ANKARA
From The Economist print edition

FOR the growing number of Turks angry about the way the European Union treats them, it was a nightmare come true. On January 30th, France's President Jacques Chirac signed into law a bill passed earlier by his country's National Assembly describing as "genocide" the massacre of Armenians during the closing years of the Ottoman empire.

No sooner was the presidential ink dry than Turkey scrapped a $205m deal with a French company to modernise 80 Turkish military aircraft. The prime minister, Bulent Ecevit, spoke of "lasting damage to Turkey's relations with France". The usually equable foreign minister, Ismail Cem, called the French measure "post-modern fascism, anti-Muslim and anti-Turkish". French cheeses and wines have been struck off local menus, French flags burnt in the streets. Ankara's mayor, Melih Gokcek, says that a monument dedicated to "Muslim Algerians massacred by French troops during their liberation war" will be erected near the French embassy by the end of February.

Nobody should be surprised by the ferocity of the Turks' response. Ever since Ataturk founded the post-Ottoman Turkish republic 77 years ago, the claim by many outsiders that 1.5m or so Armenians were systematically slaughtered by Ottoman troops in the years after 1915 has been dismissed as propaganda. Turkish schoolchildren are taught that the Armenians, encouraged by an invading Russian army in the first world war to rebel against their Ottoman rulers, killed and raped thousands of Turks. As many as 300,000 Armenians probably did die, goes the official line, but mainly from exposure and starvation caused by wartime conditions. Many western historians agree that a large number of Turks were killed by the Armenians, but reckon far more Armenians died at Turkish hands.

Not all Armenians are happy about what France has done. "What really happened remains taboo," says Hrant Dink, the editor of *Agos*, an Armenian-Turkish newspaper in Istanbul, "but calling it genocide serves no useful purpose." Like others among Turkey's 80,000 Armenians, who were granted minority rights under the 1923 Treaty of Lausanne, Mr Dink thinks that France's "ill-conceived action" could hardly have come at a worse time.

It has clearly strengthened the hand of the assorted hawks in Turkey's ruling classes who insist that the EU, though it has accepted Turkey as a candidate for membership, is really a "Christian club" that wants to keep Turkey out. It will now be easier for these people to block the reforms—more free speech, tougher discipline for the police, getting the army out of politics, a fairer deal for Kurds—which the EU wants from Turkey.

No matter, the hawks retort. They believe that Turkey's military value to NATO, and its strategic spot at the crossroads of the Caucasus, the Balkans and the Middle East, are more important than any fussing about its present politics or its past actions. That was how President Bill Clinton persuaded his country's House of Representatives in October to shelve a resolution similar to the French one. Turkey had hoped that Mr Chirac would do likewise. The matter may not end with France. The European Parliament, among several others—the Belgian Senate and the Russian Duma—has called on Turkey to "recognise the Armenian genocide", though all have stopped short of doing so themselves.

Whether or not genocide will ever be accepted as the right word, it is clear that what happened between Turks and Armenians 80-plus years ago will not soon be forgotten, and will go on hurting Turkey's relations with Europe. Yet there are ways in which the Turks could try to repair the damage.

They could, for instance, begin to mend relations with Armenia, the poor, landlocked little country to their east. Turkey was among the first to recognise Armenia when it declared its independence from Russia in 1991. But war flared up between the Armenians and Turkey's Muslim cousin, Azerbaijan, over the enclave of Nagorno-Karabakh, whereupon Turkey slapped a trade embargo on Armenia. Nowadays

Armenia's 3m or so citizens depend largely on the generosity of the rich 5m-strong Armenian diaspora around the world. A renewal of trade with Turkey, and an offer of Turkish economic aid, might start to heal the wound.

Better still, modern Turkey could have the courage to gaze into the Ottoman past, which would mean, among other things, letting historians have unrestricted access to its Ottoman archives. That might further reveal atrocities committed by Turks against Armenians. But it might also show that some Armenians, too, had bloody hands. "Turks and Armenians should be permitted to debate this painful matter freely here in Turkey among ourselves," says Mr Dink. Then, perhaps, they can "apologise to one another and put the past to rest." After which, Turkey's future too might brighten.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Russia's regional bosses can dig in

Feb 1st 2001 | MOSCOW
From The Economist print edition

TWO terms good, four terms better—what comforting news for Russia's 89 regional barons, who are getting the right to serve eight more years in office, if re-elected. Liberal politicians, such as Boris Nemtsov, describe the new law, just passed by parliament, as "feudal". They fear that President Vladimir Putin wants to lift the two-term restriction on the federal presidency too, perhaps in a revised constitution later this year.

AP

But not Nazdratenko?

The more immediate worry is that entrenching the men (there are no women), many of whom have signally misruled Russia's regions, makes reform more distant. Docile media, intimidation and fraud mean that local incumbents have usually won re-election, unless faced with a very rich opponent or—more rarely—if they have truly annoyed the Kremlin. This week the governor in Taimyr, a desolate region of northern Siberia, was defeated by Alexander Khloponin, the general director of Norilsk Nickel, one of Russia's largest and most lucrative businesses.

But there are signs that Yevgeny Nazdratenko, who runs the frost-bitten far eastern Maritime Territory in a spectacularly incompetent and heavy-handed way, may have finally exhausted the Kremlin's patience. The government is airlifting pipes there for expensive and embarrassing emergency repairs to the failing heating system. After a stinging telling-off from Mr Putin, Mr Nazdratenko sacked a top sidekick and went off to hospital complaining of stress. That could mean an early retirement.

Whacking individual governors is one thing, changing the system another. Mr Putin's seven "super-governors", appointed in May to oversee the provinces, have so far made little difference. A new decree on their powers this week knocked them down the Kremlin pecking order. And a new law came into force this week to let the president, in *extremis*, fire governors himself. So long as they stay clear of federal politics, Mr Putin seems happy to leave most of them alone—for now.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

France

Strike to retire

Feb 1st 2001 | PARIS
From The Economist print edition

THE demonstrations have an almost ritual quality: by their hundreds of thousands, workers pour on to the streets of France's main cities, wave banners, shout slogans, block traffic and then, after a good day out, go home, confident both of their bargaining power and of their popular support. Last week, the battle was in defence of pensions and the present retirement age; this week, the cause was more pay for the public sector. Only occasionally does the festive air turn nasty, as in Lille last week, when demonstrating firemen came to blows with the police, and a protester lost his right hand picking up a police tear-gas grenade.

But, tactics aside, what are the grievances? France has one of the rich world's largest public sectors: some 5.4m people—about a fifth of the workforce—are employed by the state. Their average monthly salary after all deductions is a bit more than FFr12,000 ($1,700). If the government has its way, the public-sector unions will accept an initial 0.5% increase in the first year of a deal covering the years 2000-02. However, the unions, citing a loss of purchasing power in the late 1990s, are demanding annual increases of up to 3%, including a 1% bonus for last year. In reply, Michel Sapin, the civil-service minister, argues that a rise in the previous wage deal, signed in 1998, has actually put real incomes up.

However complicated the arithmetic, some sort of equation is sure to be worked out soon. For all that France's Socialist-led government has been urged by the European Commission to trim its budget deficit, the political fact of life is that next month France will hold local elections whose results will be seen as an omen for next year's parliamentary and presidential polls. Clearly, Mr Sapin and his colleagues will soon want to curry the workers' favour, rather than stoke their anger. And in any event the difference between the two sides is hardly enormous: the unions' demand for a readjustment of last year's salaries would mean an additional cost to the French treasury of some FFr3 billion.

Would that the basic arithmetic at the root of last week's demonstrations over pensions could be so easily fudged. Unfortunately, it has suddenly become more difficult with the decision of two big companies (Suez Lyonnaise last week, Bouygues this) not to buy "third-generation" mobile-phone licences from the government.

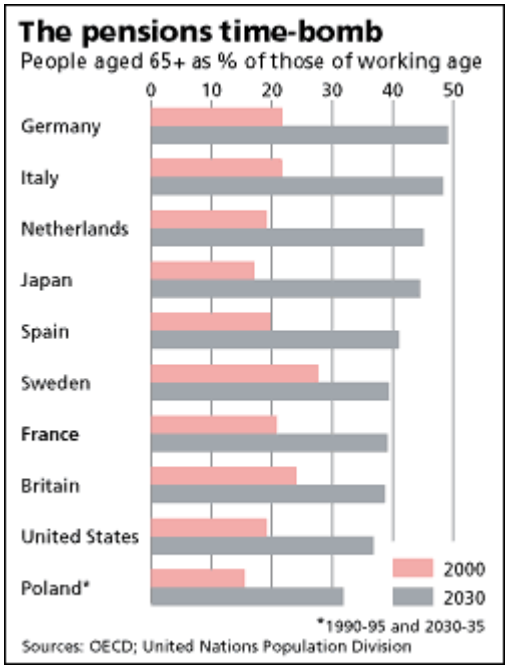
This will deprive the state of some FFr65 billion, money that had been earmarked over the next few years to build up the pension system's reserves. That will, in turn, pose a painful political problem, since at the moment France's pensioners enjoy virtually the same standard of living as the population as a whole. How can France keep up that standard?

Today, each retired person's pension is paid for by the contributions of 1.7 workers. But within 40 years the burden will have to be borne by one worker alone, as the number of French men and women over 60 (the normal retirement age, with cosseted earlier-retiring exceptions for such people as train-drivers) goes up from a fifth of the population to a third. Clearly, something must give. But what?

The answer from the bosses' association, Medef, whose members employ around 14.5m workers, is to lengthen a worker's career and so the amount of his contributions. To back up its idea, Medef has stopped paying its share of contributions into a fund that helps finance private-sector pensions for those between 60 and 65. In theory, from April some pensioners will find their income cut by 22%.

In practice, it will surely not come to that. For one thing, last week's demonstrations have already softened the resolution of Medef's president, Ernest-Antoine de Seillière. His original idea was that a working life should be lengthened by 2023 to 45 years. At the moment, thanks to a reform in 1993 which set a deadline of 2003, it is moving from 37 1/2 years to 40. Now Mr de Seillière, whose tough tactics have been criticised by many of his own members—not least Jean-Marie Messier, the boss of the Vivendi group—says 42 1/2 years will be enough.

Meanwhile, the unions ask a clever question: if it is so important for France's bosses to lengthen their workers' careers, why have so many of them concocted schemes for early retirement?



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The return of the bodysnatchers

Feb 1st 2001
From The Economist print edition

Last week revealed much about how the dead and their relatives are treated in British hospitals—and the worryingly different ways in which doctors and ordinary people think about death

IN AUTUMN 1999, the parents of infants who had undergone post-mortems at Alder Hey children's hospital in Liverpool learned that their children's organs might have been illicitly retained by pathologists. The hospital then released patchy and unreliable information about what exactly had been taken and from whom. Some of the parents have held several burial ceremonies for their children, many of whose organs were never actually used in medical research. Others expected to be given back snatched body parts, only to be told that they had been destroyed.

This history of ghoulish malpractice and gross mismanagement at Alder Hey was known before the release of a report about it on January 30th. But, as the precautionary provision of extra security at the hospital that day intimated, there was worse to come. The report revealed that between 1988 and 1995, all the organs of all the children who had post-mortems at the hospital were systematically stripped, on the instructions of Dick van Velzen, a pathologist. Mr van Velzen failed to obtain parents' consent for these procedures, and lied to them and his own colleagues, who in turn failed to stop him. Yet, though peculiarly zealous, he was continuing the hospital's existing tradition of organ retention. Alder Hey shares with the University of Liverpool the country's largest collection of organs and other body parts, accumulated over decades; it includes the head of an 11-year-old boy.

Despite its many, now eclipsed, virtues, Alder Hey has been justly excoriated. But a national audit of organ retention which accompanied the main report disclosed that whilst that hospital's stockpile is exceptional, its methods were once commonplace. At the end of 1999 hospitals in England were storing 104,300 (mainly adult) body parts, organs, still-births and foetuses—though record-keeping is generally so bad that the true figure could be higher. As at Alder Hey, these bits of the dead were often removed without the consent of relatives. Many hospitals simply throw away such organs when they become redundant. This cavalier attitude contrasts with that in the United States, where a more transparent (and litigious) medical system has forced doctors to get consent for retaining body parts.

In response to these inflammatory revelations, the government has promised to update the murky law governing the consent doctors need from relatives before a post-mortem. Some of the consent forms relatives have hitherto been asked to sign have used the term "tissue" to refer to everything from a sliver of fat to whole organ systems. In future, they will be told exactly what is being taken and why. Mr van Velzen is likely to be struck off the medical register, and could yet face criminal charges (he is already under investigation in Canada). Some of the aggrieved parents will now sue. And a commission has been established to oversee the return of organs stored across the country to relatives who care to claim them.

Legislate in haste

But this effort to re-distribute organs could end up generating more trauma than satisfaction. Likewise, the government's drive to dispel Britain's paternalistic medical culture, which the secretive attitudes of pathologists has exemplified, will involve costs.

The Labour government has already introduced a melée of measures to improve the regulation of doctors and increase their accountability to patients. Alan Milburn, the health secretary, wants doctors to place the interests of patients first. That general principle is uncontroversial. But the fact that the Alder Hey scandal (and others like it) has come to light is itself evidence that the sort of change Mr Milburn is calling for is already happening. In the specific area of consent for post-mortems, new guidelines were released to doctors and pathologists last year. The fact that many doctors have already mended their ways was lost amid last week's tough ministerial rhetoric. That is hard on doctors; but the rights that patients and their proxies are now to be accorded will have consequences for these people as well.

Ministers want the relatives of post-mortem subjects to be told, in effect, everything. Many of the Alder Hey parents say they would have donated their children's organs to research had they only been asked to do so. And with good reason: the report acknowledged that there are more than 1,600 children alive who would have died but for the advances made at Alder Hey. Yet doctors report that the more information given to relatives about a post-mortem, the less likely they are to agree to it. Professor John Lilleyman, president of the Royal College of Pathologists, says there is already evidence of a decline in the number and thoroughness of autopsies, because of the scandal. Sharing all the grisly details could turn the recent dip in post-mortems into a permanent and damaging decline.

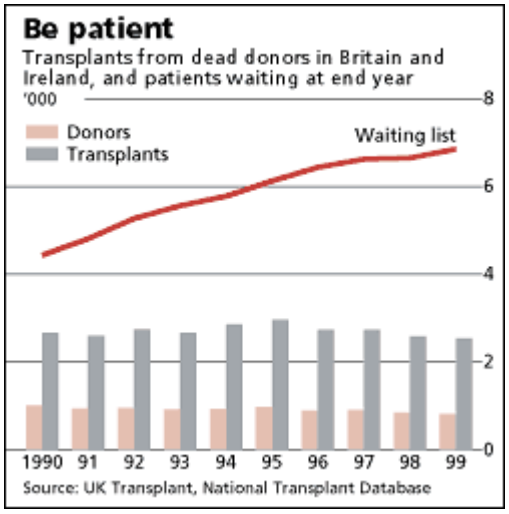
Dealing with the dead

One obvious inference from all this is that medical professionals and grieving relatives have very different attitudes towards dead bodies. That was made clear earlier in January, when the chief executive of another hospital was forced to resign, after a photo was published of bodies being stored on the floor of his hospital's chapel. Politicians complained loudly about the neglect of the dead in British hospitals. These anxieties are, in a way, irrational; but they reflect the odd status of death in modern Britain.

As in other western countries, in Britain, death, once a communal, familiar domestic event, now largely takes place in hospitals. Cremation has grown in Britain more swiftly than in other countries, in part from geographical necessity. The habit of exhibiting bodies before a funeral, still common inother countries, has declined. Britons have become ill-equipped to contemplate bodies, as recent events have obliged them to.

Meanwhile, some very old ideas about the dead, which sit uneasily with modern science, have persisted. In the 18th and 19th centuries, dissection was considered a disgrace to its subject; legally, it only happened to criminals or, later, the poor. But people also worried about it because they believed it was important for bodies to remain intact. That attitude is alien to modern doctors. Lord Winston, professor of fertility at Imperial College, says that doctors conducting post-mortems in the 1970s would never have considered a body incomplete because a bit of it had been retained.

But the idea that bodies ought to be respected and preserved evidently persists among people outside the medical profession. This attitude is problematic, not least because it in part has led to the growing shortfall in organs made available for transplants (see chart). And this discrepancy between popular and medical attitudes to death also helps to explain why the events at Alder Hey occurred, and why they have proved so painful.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Mandelson affair

The worm turns

Feb 1st 2001
From The Economist print edition

Peter Mandelson has little hope of rehabilitation, but he can still damage the government

HELL hath no greater fury than a cabinet minister whose career lies in ruins. Peter Mandelson's bid for rehabilitation after his forced resignation on January 24th over his intervention in the citizenship application of two Indian businessmen has little chance of success. But the former Northern Ireland secretary's determination to prolong the affair is likely to damage the party whose new image he helped to create.

Reuters

History?

Mr Mandelson's friends, with an eye to French history, are calling it a second "Dreyfus affair", but it seems less than heroic to voters. A poll has shown that Labour is now seen as even more "sleazy" than the Conservatives. According to an NOP survey, 49% believe that Labour politicians "give the impression of being very disreputable", 2% more than the Tories. That reverses the position before the last election, when the Tories were seen as "sleazy" by three times as many as Labour.

The story will rumble on at least until later this month, when an official inquiry reports on how two Hinduja brothers were granted citizenship. Headed by Sir Anthony Hammond, a former treasury solicitor, the inquiry will also be looking at the actions of the foreign office minister, Keith Vaz, who has admitted lobbying on behalf of the brothers. Home Office ministers are confident that the inquiry will show that the application was dealt with properly and in accordance with established procedures. But the Conservative opposition's front-bench team achieved an easy headline by pointing out that MI6, Britain's secret service, had serious reservations about the Hindujas' application, in view of the ongoing investigation into bribery charges against them in India.

Mr Mandelson has hired Goldsmiths, a law firm, to represent his interests in the inquiry. It has written to newspaper editors warning them against repeating allegations that the former minister lied. But as several members of the cabinet are on record as saying just that, Mr Mandelson will have an uphill struggle seeking to clear his name. One profitable avenue now opening up is autobiography. Publishers are queuing up to get the inside story. One offer is said to be worth £500,000 ($700,000).

Mr Mandelson's friends, who are conducting his defence while he takes a holiday, say that he was subjected to a kangaroo court composed of Jonathan Powell, the Downing Street chief of staff, Sir Richard Wilson, the cabinet secretary and the Lord Chancellor, Lord Irvine of Lairg. It is this powerful triumvirate who advised Mr Blair that Mr Mandelson's convoluted story did not add up. Mr Mandelson originally said that he played no part in contacting the Home Office; but he was expressly warned by the home secretary, Jack Straw, only three days before the row broke that there was a record of a telephone call between him and Mike O'Brien, the junior home office minister. When Mr Mandelson was asked on television why he had forgotten this conversation with Mr O'Brien, he replied: "There's no question of my forgetting about anything. I was not asked [about it] until today."

There appear to be only two explanations for Mr Mandelson's bizarre behaviour. The first is that he genuinely forgot what the home secretary told him about the conversation with Mr O'Brien. Given that the call from Mr Straw was so recent, that is a charitable verdict. A much harsher one is that Mr Mandelson simply panicked when pressed by journalists, and decided to give a less than truthful answer from which he subsequently could never escape. Derek Draper, his former aide, says that his old boss is by temperament a gambler and probably thought he could get away with it.

Whatever the outcome of the inquiry, Mr Mandelson's political career is almost certainly at an end. But his departure will have an impact, over and above a few weeks of excruciatingly bad publicity for the party he has spent his life supporting.

The key relationship in this government is that between the prime minister and the chancellor. Mr Mandelson's departure can only help improve this sometimes strained relationship. His determination to make waves on areas outside his brief, in particular Europe, was a perpetual irritant to the chancellor. The fact that the prime minister had put both of them in charge of Labour's election campaign guaranteed a flood of stories about rows between them in the run-up to the election. Politics and journalism will be duller without Mr Mandelson; life within the cabinet may be calmer.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Norfolk

The Hamptons, only colder

Feb 1st 2001 | CLEY
From The Economist print edition

North Norfolk is the latest place to benefit (and suffer) from the outflow of money from London

FOR many years the East Sussex coast was the favourite bolt-hole for those cosmopolitans weary of the hectic pace of London life. This was where the artists, writers and economists of the Bloomsbury Group bought their cottages in the 1920s and 1930s. For a time the Cotswolds, to the west, were in vogue, but succumbed long ago to the stifling embrace of mass-tourism. But now Londoners have discovered a new retreat, the North Norfolk coast. And the locals don't really know what has hit them.

As the Hamptons of Long Island are to the rich, upper-middle-class elites of New York, so the 50 miles of the North Norfolk coast is rapidly becoming the same to those of modern London. It is easy to see what has drawn people here. Cold it may be, but it offers many of the same advantages as the Hamptons: sandy beaches, clean air, pretty villages, lots of seafood and beautiful scenery. It is also fairly close to London, three hours by car. And, until recently, compared with the Cotswolds or Sussex, it boasted a good stock of comparatively cheap flint cottages to buy and if necessary to convert. In other words, everything one could want for a weekend break.

The area has traditionally been quiet, but never poor. Families have been coming to Norfolk for generations. But during the 1990s, they were followed by an influx of what the locals called "incomers", mainly from London, who had done well out of the prolonged economic upturn. And in the past two or three years this influx has turned into a stampede. North Norfolk is now the fashionable place to be.

One obvious sign of this bubble of interest is the rapid house-price inflation in the area. It has probably the hottest local market outside London, with some absurd prices to match. An independent estate agent, Marsh's, in Holt, estimates that in the past three years prices for the best properties have risen by 50%, everything else by at least 25%. Larger cottages now go for over £300,000 ($440,000). A derelict, semi-detached cottage on a main road, needing about £80,000 of work, recently sold for £128,000 within two days of going on the market. To say nothing of the beach-huts for £12,000.

Marsh's reports that 75% of its inquiries come from outside Norfolk, mainly from the south-east. But interest has recently gone global. An Indonesian developer has bought a string of cottages to let. At these prices only the seriously rich can now afford to move in. Recent arrivals include the former prime minister, John Major, who has bought a £400,000 bungalow, and Caroline Quentin, a comedienne.

Many of the cottages have been sold as second homes, although some families are coming to live permanently. They are partly encouraged by the existence of nearby private schools at Holt, such as Gresham's.

The sudden arrival of new wealth has transformed many of the old villages along the coast. Take Cley, with its eye-catching windmill. One long-time resident estimates that half of the village's 200 houses are now second homes. Young professionals have also been buying up cottages to work from, and commute to London a couple of times a week. With such a drop in permanent residents, in the past five years the two general village stores have closed, and the post office is on half days. Instead, Cley can now support

a thriving delicatessen shop, with gourmet foods which would look more at home in Notting Hill Gate. John Prior, the shop's owner, opened "Picnic Fayre" in 1984, but he says that it is only in the last few years that he has been able to sell the most up-market products. Last year was his best so far, by a considerable margin.

Burnham Market, now known locally as "Burnham mark-up", is the most prosperous of the local villages enjoying the new wealth. It is also the social centre of the new Hamptons, with shops full of designer shoes and dresses for the summer season. Anna's, a designer boutique, has a branch in London, rather than the other way round. And, if anything, the Burnham Market shop takes more money than the London branch. But as the supply of flint cottages has dried up, so the incomers have spread east along the coast to Cromer and south, to Fakenham, forming a sort of golden triangle.

The locals look on all this with a mixture of awe and trepidation. According to the local council, despite the fact that the total population has been increasing in recent years, the indigenous population is still falling. Some feel that they have now been priced out of their own birthright. Locals, especially the young, have to make do with the modern houses, and even these can be very expensive due to the tight planning restrictions in an area officially designated as one of "outstanding natural beauty".

The council has spent £1.2m revamping the centre of Fakenham, hoping to make this crumbling old market town a more attractive place to live in. It also wants to encourage the incomers to spread their wealth more widely, not just in out-of-town supermarkets and delis. But the council admits it is only just beginning to come to terms with the area's sudden success. Its best hope may be that North Norfolk can hang onto the last vestiges of its previous obscurity. And that the roads from London do not improve.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bagehot

The narcissism of small differences

Feb 1st 2001
From The Economist print edition

HERE'S cheek for you. In this space last week, Bagehot had intended to write about what the Tories would do to public spending if they won the coming election. To this end, your columnist spent several eye-glazing hours crunching numbers somewhere in the House of Commons with a horribly numerate senior Conservative. But, of course, the article never appeared. As *The Economist* went to press, British politics was up-ended by the resignation of the Northern Ireland secretary, Peter Mandelson. His mysterious implosion drove pedestrian topics such as taxing and spending from most minds and headlines.

Now whoever was responsible for the Mandelson affair, it was not the Tories. They confined themselves to the usual business of kicking an enemy when he was already down. So it was a bit rich this week when the prime minister accused the Conservatives of deliberately distracting attention from serious policy matters. Indeed, on January 30th, Tony Blair spent two and a half hours in a "political cabinet" (an aeon by the standards of his usual cabinets) telling his remaining ministers to keep their focus on policy, because the Conservatives were deliberately trying to "close down the policy debate". The prime minister is said to believe that the Conservative strategy is to discourage voting in the next election by turning people off politics and fanning "cynicism and apathy". He, needless to say, remains sturdily focused on "the things that matter". And to prove this, it now emerges that the government will shortly be producing comprehensive new policy papers on education, crime, high technology and culture.

Can't wait. But it would meanwhile be wrong to ignore what the Conservatives were saying just before they were interrupted by those discordant noises from Labour's high command. For the Labour line until then, you may remember, was not that the Tories were avoiding policy debate. On the contrary: Labour was accusing the Tories of having a very wicked policy indeed. They intended to "cut" £16 billion ($24 billion) of public spending between 2001 and 2004 if they won the election. They had no idea how they would do so, claimed Alistair Darling, the social security minister; Tory sums had been done "on the back of an envelope" and did not add up. But it was plain that public services would be cut to smithereens if they were elected.

Or they would, if the Conservatives really did intend to reduce public spending by £16 billion. But they say they do not. Indeed, they have no plans to reduce public expenditure at all. Michael Portillo, the shadow chancellor, promises to increase it. The difference is that Mr Portillo says that Gordon Brown, the real chancellor, is wrong to promise that he can continue to increase spending at a faster rate than the economy is growing without raising taxes or borrowing. So the Conservatives have adopted the Treasury's conservative guess that the economy will grow at 2.25% a year. In order to align increases in public spending with this trend within the next three years, a Conservative government would therefore increase annual spending from a present £372 billion to £435 billion by 2003-04, compared with the present government's plan to increase spending (or "investment", as Mr Blair has taken to calling it) from £372 billion to £443 billion. This means that the Conservatives would indeed increase spending by less than Mr Brown has promised. But it is only £8 billion less. And it is no "cut".

Just to remove any misunderstanding, the Tories are not only making promises about the total amount by which they will increase spending. They accept that if they won an election in May they would have to stick by Labour's spending plans for their first year. (Labour, remember, stuck by John Major's for two.) And they also promise to match the government's spending promises on health, education, defence,

policing and transport. Labour retorts that if the Tories refuse to touch those areas, they will never manage to prune £8 billion, let alone £16 billion, from the areas that are left. But the Tories have now produced details of how they think they could: £1 billion here by reducing social-security fraud, £1.8 billion there by reducing government bureaucracy, £425m by reforming housing benefit, and so forth. They also have some ideas the government calls “gimmicks” (but remember Mr Brown’s windfall tax), such as privatising Channel 4 and endowing the universities so that they are no longer financed by the state.

Naturally, there is room for doubt about how successful such ideas would be. Fraud and bureaucracy, for example, look easier to trim when you are in opposition than when you are in government. The proposal to float off the universities is still a study in vagueness. But in the scheme of things, the difference between the spending plans of the two parties is anyway tiny: less than 1% of GDP. Their past spending has been similar too: the Institute for Fiscal Studies reported this week that Labour has so far increased spending at a lower rate than Mr Major’s government did. As to the future, can it really be true, as Labour implies, that it would be devastating to Britain’s social fabric if a Conservative government were to spend £435 billion of taxpayers’ money a year in three years’ time, instead of the £443 billion a Labour one would spend?

Obviously not. A better criticism of both main parties is that, on public spending, risk aversion has trapped them in what Freud once called “the narcissism of small differences”. Labour promises to spend more on the welfare state but also to reform it so that it delivers better services. Ditto the Conservatives: no more “rolling back the state”. The voter is invited to believe that minuscule differences in the amounts each party would spend, and even smaller differences in the way they would spend it, are proxies for titanic ideological differences, and perhaps even moral ones. Is it any wonder that people tend to find follies such as the Mandelson affair a lot more gripping than Mr Blair’s “things that matter”?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Job losses

Steeled

Feb 1st 2001 | GLASGOW
From The Economist print edition

When huge factories close, the outcome is not always as bad as people expect

ON FEBRUARY 1st, Corus, a steel-maker formed in 1999 from the merger of British Steel and Hoogovens, announced that it was restructuring its British operations. It blamed the closures on "weak UK demand and lack of competitiveness in export markets". Some 6,000 jobs will go, the bulk of them in South Wales. The iron-and-steelmaking plant at Llanwern, near Newport, will be closed, as will the tin-plating factory at Ebbw Vale.

The announcement was not a surprise. Indeed, the local media's chronicling of the desperate, but apparently unavailing, efforts on the part of ministers from the Welsh Assembly and the government to change the company's mind has resembled coverage of the lingering death of an iconic national figure. The villain of the piece is not the workforce, acknowledged to be heroically productive, nor even the management, but the weakness of the euro against the pound, which Corus blames, plausibly, for making exports too expensive and competing imports too cheap.

Though any steel-industry contraction, coming while the South Wales valleys are still reeling from coal-mining's disappearance in the 1980s, is a blow, the Welsh should not spend too long in mourning. The lesson from other parts of Britain that have been similarly afflicted is that the knock-on economic effects need not be as bad as feared.

Some predictions of the closures' consequences are dire indeed. One much-quoted survey by the Welsh Economic Research Unit at Cardiff University claimed that the 14,000 jobs in Welsh steel-making in 1994 supported another 44,000 jobs. This may be true, but it does not mean these jobs too are about to go.

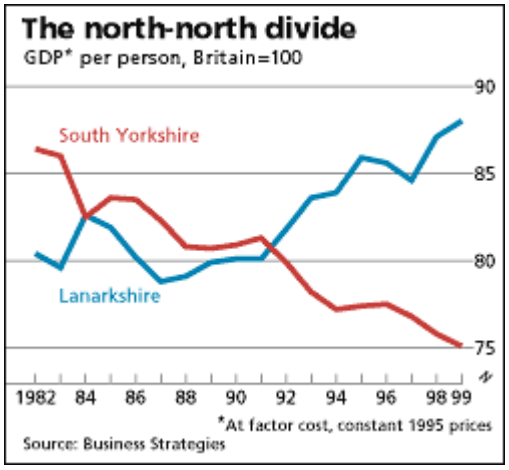
When British Steel shut its furnaces at Motherwell and some other Scottish steel-making plants in Lanarkshire in 1991-92, 4,400 jobs were lost. By March 1993, the unemployment rate in Lanarkshire reached 14.1%. Studies predicted that anything between 5,600 and 20,000 jobs would go, on top of those lost at the plant. Similar steel job losses in South Yorkshire had even worse effects. Unemployment in Rotherham, the worst-hit area, reached 23.5% in 1986.

Since then, however, unemployment in both regions has fallen to less than 6%. But in overall economic terms, Lanarkshire has done far better than its fellow victim. The author of the most conservative of those studies estimating likely job losses, Jim Stevens, an economist at Strathclyde University, says that even he over-estimated the impact. Lanarkshire's share of Britain's GDP is climbing (see chart), while South Yorkshire's has continued to slip. It is now one of the poorest regions in Europe.

There are two main reasons for this. First, while coal-mining had ceased in Lanarkshire ten years before the steel closure, coal and steel job losses coincided in South Yorkshire. Second, South Yorkshire took a much bigger hit; in the past 20 years, about 20,000 steel jobs and 40,000 mining jobs have gone from the region.

In this respect, South Wales is more like Lanarkshire. Newport is

also close to Cardiff and Bristol, which has helped its economy diversify into newer industries such as electronics. And like Lanarkshire, South Wales has the asset of an experienced economic agency, the Welsh Development Agency (WDA), to help it find new work.



This is important in securing foreign direct investment; Wales and Scotland regularly secure 20-25% of inward investment to Britain, despite having only 15% of the population, a success rate only partly to be explained by the availability of subsidies. In 1997-98, for example, Lanarkshire secured 27 inward investment projects promising 9,000 jobs and £324m of investment. But equally important, says Liz Connolly, chief executive of Scottish Enterprise Lanarkshire, is encouraging existing local firms to diversify, and helping local people set up their own firms. An entrepreneurship programme, the agency says, has helped to start up nearly 100 companies which now employ 1,900 people.

These programmes did not come about by accident. As soon as the end of steel-making was announced, a working group comprising all the area's main public and private sector organisations set out to implement a post-steel economic strategy worked out beforehand. The group had the clout to get things done fast because it was chaired by a senior politician, the Scottish secretary. Yorkshire people involved in the same work admit that getting the same cohesion from their local organisations has been well-nigh impossible until recently.

This experience has convinced the British government that regional bodies with leadership clout are the way forward for English regions (see article). Development agencies such as Yorkshire Forward believe they are beginning to make an impact. On January 31st, Yorkshire Forward announced that Boeing, the big American plane maker, was to build a research centre in Rotherham, to develop new ways of using metals in aircraft manufacture.

Although this will employ only 100 people, Yorkshire Forward is exultant. It thinks that Boeing's example will encourage similar firms to move into a 100-acre advanced manufacturing park which it hopes will, in five years, employ as many as 7,000 highly-paid people. Britain may not make much steel these days, but there is still life at the sharper end of the metals business.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Regional government

For England and Tony Blair

Feb 1st 2001
From The Economist print edition

Reuters

Prescott pleads for the regions

SINCE Tony Blair devolved some of Westminster's power to assemblies in Scotland, Wales and Northern Ireland, England has stuck out as the only part of Britain without any devolution, except for London's little-esteemed assembly. But now Mr Blair has decided to start rolling out devolution in England, not by setting up an English parliament, but by drawing up a route map for the eight English regions to move towards elected regional government.

This commitment was in Labour's last election manifesto, but nothing much has been done to implement it, apart from creating regional economic development agencies (RDAs) modelled on the Scottish and Welsh agencies. Despite calls for more, especially in the north-east and north-west of England, Mr Blair felt that was enough to be going on with. To the dismay of John Prescott, the deputy prime minister and a champion of the regions, he was much more interested in persuading big cities to have elected mayors, as a way of restoring provincial pride.

But hardly any English city seems excited by that idea. So ministers are now thinking regionally, and plan to publish a white paper after the election. This will not prescribe that every region must have its own devolved government; rather it will set out the steps, culminating in a referendum on elected assemblies, that regions can take if there is enough demand for it.

The motive for this is more economic regeneration than a desire for constitutional symmetry. Gordon Brown, the chancellor of the exchequer, and Stephen Byers, the trade and industry secretary, have become increasingly troubled by the north-south divide in Britain, and are convinced that the answers to these problems are to be found in the regions themselves rather than Whitehall.

So Mr Brown is pumping more money into the RDAs. And as these bodies become more powerful, he argued in a speech in Manchester on January 29th, so they should become accountable to the local people and interest groups they are supposed to be working for. This could be done, in a small way, by beefing up the associations of local council, business, trade union and other interests which the RDAs are obliged to consult, or, in a larger way, by having an elected assembly.

This is all good virtuous democratic stuff. But there is one problem ministers have yet to solve. Some regions will want assemblies; others will not. How do you judge local demand? The Welsh Assembly was set up only after a referendum approved it by a hair's-breadth, and that was after years of devolution campaigning by Labour. In England, devolution is a pretty novel concept. Mr Blair will not want to spend a lot of time promoting it only to find it is a novelty that the voters are not interested in.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Just a bite

Feb 1st 2001
From The Economist print edition

WHEN McDonald's announced on January 31st that it was taking a 33% stake in Pret A Manger, the sandwich chain that made lunchtime palatable for British workers, it looked like an unhappy combination of an ambitious expansionist global chain with a company that prides itself on its sensitivity to cultural difference. It is, except that Pret is the one out to build a global brand and McDonald's, these days, is painfully aware of the need to treat local feelings with delicacy.

Pret was born 15 years ago when two graduates decided they had had enough of wodges of white bread separated by limp lettuce. Its turnover is now around £100m. It opened a shop in Manhattan last year, and has made a success of it. The Americans, brought up on massive do-it-yourself sandwiches for which they queue for hours, seemed to like the slim British model. Now Pret wants to expand across America and through Asia. It needs McDonald's cash and expertise in managing such things.

McDonald's needs to diversify. Its core business in America is slowing because the baby-boomers are ageing, and as they do, they discover that there is life beyond the burger. McDonald's already has 28,700 outlets around the world; and, reviled as it is internationally for all manner of moral and physical corruption, it knows there is a limit to the number of American-style burgers it can shove down people's throats. In India, it has dealt with the beef problem by offering the Maharaja Mac mutton burger; in Korea, it offers the spicy Bulgogi burger; and in Japan the Teriyaki burger.

McDonald's was expected to buy Pret outright, but contented itself with a third of the company; and it emphasises that Pret will retain its character and its autonomy. "We purposely struck a deal where Pret's management would remain in control. For us, this was a critical part of the deal. They know their market, they know their customers." Whether Pret's mission statement—it claims to be "passionate about food" and to spurn chemical additives—will survive the alliance with the purveyors of rubber burgers and cotton-wool buns is another matter.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Care for the old

The Scottish tail

Feb 1st 2001
From The Economist print edition

A decision by the Scottish Parliament raises the question of whether two health systems can operate in one country

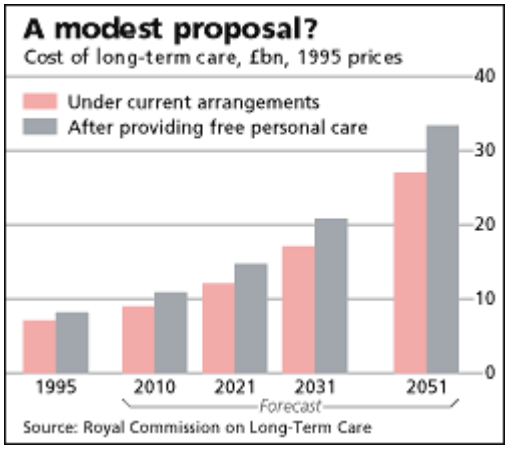
AN EXTRAORDINARY political experiment is about to start. In one part of the United Kingdom, both personal and nursing care will be provided free of charge to elderly, frail people who require long-term help. In another, only nursing care will be free. Before long, any such people living in Scotland will be safeguarded from the crippling bills for long-term care that many of their counterparts in England will have to pay. But the potential cost to the Scottish taxpayer could be heavy, especially if there is a mass trek of older people north of the border to take advantage of the better deal on offer in Scotland. The experiment puts on trial the financial terms of devolution.

The Scottish experiment was not supposed to happen. Until the untimely death of Donald Dewar late last year, the ruling coalition of Labour and the Liberal Democrats in Edinburgh had signed up to a policy on long-term care that mirrored the National Health Service's plan for England. That plan, announced last July, contained the government's long-awaited response to the report of the Royal Commission on Long-term Care. Ministers rejected the commission's central proposal that personal and nursing care alike be made free at the point of use for all, irrespective of means. Instead, the Westminster government plumped for the main recommendation of the minority report, that only nursing care should be free.

Scottish commitment to the English solution started to waver when Henry McLeish replaced Mr Dewar as leader of the Scottish Executive. But as recently as January 24th, Susan Deacon, the Scottish health minister, presented a package that was still broadly in line with Westminster. However, the threat of a revolt by the Liberal Democrats forced a reversal of policy: the executive committed itself to implementing free personal care. Any lingering doubts about the U-turn were settled by Mr McLeish's statement this week that "there will be no backsliding" from the commitment to provide free personal care for all. That meant that, for the first time, both the majority and the minority reports of a royal commission would be implemented—the one in Scotland, the other in England.

The Scottish decision will provide a controlled experiment in just how expensive it is to provide personal care free to the frail elderly. The royal commission estimated that the extra cost for personal and nursing care in Britain would be a relatively modest £1.1 billion (in 1995 prices), rising to £6.4 billion by 2051 (see chart). Most of this is for direct personal care, such as help with washing, eating and moving around. (The definition does not include other assistance such as preparing food.) The commission estimated that the additional cost of making all nursing care free would initially be £220m.

The advantage of the Scottish approach is that it answers one of the main criticisms of the Westminster government's decision to limit free care to nursing provision: how do you draw the line between nursing and personal care? The proposal for the NHS in England is that the government will in future meet the costs of registered nurses' time spent on care. That deals with one of the main inequities of current arrangements—that nursing is free within the NHS but not within nursing homes. But it does not convince critics like Sir Stewart Sutherland, the royal commission's chairman, who has said that it will be "almost impossible" to come up with a workable definition of the difference between nursing and personal care for the purposes of charging.



However, the danger of the Scottish approach is that it could prove very much more costly than the £110m bill for Scotland

implied by the royal commission's estimate. Civil servants in Edinburgh think the figure could easily be double that. This would be equivalent to 1p on the "tartan tax", unless other savings can be found, estimates David Bell, an economist at Stirling University. Lord Lipsey, one of the two dissident voices on the royal commission (and a former *Economist* journalist), believes that the £110m price tag will prove a "wild underestimate". For one thing, it does not take into account the potential economic costs of older English people migrating to Scotland: "economic incentives work". More important, it disregards the potential for formal care provided by paid carers to replace informal care provided by families and friends, once the government says it will foot the bill. That potential is huge. According to Ben Rickayzen, an actuary at City University in London, three-quarters of all long-term care is provided informally. Mr Bell agrees that "it will create a market where previously there was informal care."

Costs therefore seem likely to rise. Yet the difficulty with Westminster's approach remains: it offers no solution to the perceived unfairness of long-term care. Why, people ask, should I have to sell my house and deny my children a legacy when others, who have been feckless, get long-term care for nothing? The obvious answer is that the state should not ask poorer taxpayers to subsidise legacies for the rich. But this begs the question why the market cannot provide some form of risk-pooling for the one-in-five men and one-in-three women who will require residential care after reaching 65.

At present, there are very few long-term-care insurance policies in existence—just 34,000 at the end of 1999. Mr Rickayzen explains that "people won't face up to the prospect of needing long-term care, so this makes it difficult for insurers to promote the product." But there are other reasons why the policies are unattractive. "It's a Catch-22, which makes it utterly unsurprising that they offer such bad value," says Nicholas Barr, an economist at the London School of Economics. They are very expensive for older people who are most likely to need them, but difficult to price for younger people because there are so many imponderables about future need and costs.

Even so, the government could take steps to make long-term-care insurance more attractive. For example, it could commit itself to paying for care for the elderly beyond a fixed period of, say, three-to-four years. This would make it much easier for insurers to price the risk. It could also allow long-term care to be bundled into private pensions, which would exploit the fact that those who require care tend not to live as long as those who don't.

As long as there are no realistic means to insure against the financial catastrophe of prolonged long-term care, the government will be vulnerable to charges that it is unfair to have one system in Scotland and another in England. This is all the more so, since Scotland already has much higher public spending per head on health than regions like the north-east with equivalent needs. Already Liam Fox, the Conservative health spokesman, has accused the government of the ultimate "postcode rationing". The decision by the Scottish Executive is significant, says Vernon Bogdanor, a constitutional specialist at Oxford University, because "it marks a breach in something very fundamental in the welfare state, that benefits and burdens should not depend on where you live."

So far, ministers at Westminster are sticking to their guns. But as the election approaches, Tony Blair's government may find itself under a lot of pressure to concede. This may be a gamble that Mr McLeish is hoping to win. "If Westminster does play catch-up it takes all the pressure off the Scottish Executive," says Brian Main, an economist at Edinburgh University. And it will put pressure on the Westminster government, still known abroad as the British government, to find ways of ensuring that the Scottish tail does not wag the English dog again.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The long trail twisting from Lockerbie

Feb 1st 2001 | CAMP ZEIST, THE NETHERLANDS
From The Economist print edition

AP

An unexpected guilty verdict has left America and Britain with a dilemma

LIBYA'S dictator, Colonel Muammar Qaddafi, may have thought he was about to have the last laugh. He had always insisted that Libya had nothing to do with the 1988 bombing of PanAm flight 103 over the small town of Lockerbie, in Scotland, which cost the lives of 270 people. After years of defying UN sanctions and international isolation, he caught America and Britain off guard in 1998 by agreeing to send the two Libyans accused of the bombing to a specially constructed Scottish court in the Netherlands. For months the trial, which eventually began before three senior Scottish judges last May, seemed to be going the Libyans' way, as prosecutors struggled to establish their case.

And then, on January 31st, the judges wiped the smile off Colonel Qaddafi's face. They unanimously found Abdelbaset Ali Mohmed al-Megrahi, a Libyan intelligence agent, guilty of mass murder, sentencing him to life in prison. At the same time, they freed his co-defendant for lack of proof.

The verdict came as a surprise to many observers at the trial. From the beginning, the prosecution case had suffered from the lack of a "smoking gun" or any eyewitness to the crime. Prosecutors had to ask judges to infer the defendants' guilt from circumstantial evidence. A defence lawyer mocked their case as an "inference upon an inference upon an inference—leading to an inference."

But this is precisely what impressed the three judges, who drew an inference from a mountain of detailed evidence which they reckoned established beyond reasonable doubt that Mr al-Megrahi planted the bomb. Prosecutors inundated the court with evidence and the findings of forensic science, calling 230 witnesses, including CIA agents and former intelligence agents from Libya's erstwhile Soviet-block allies.

Circuit-board fragments recovered from the debris were traced to shipments of bomb-timers received by Libyan intelligence. The anatomy of an undeclared war was exposed, with evidence about Libyan intelligence officials plotting a retaliation for the 1986 American air strike on Tripoli, which was aimed at Colonel Qaddafi but killed his adopted daughter. That strike, in its turn, had been a punishment for Libya's alleged role in an attack on a Berlin discotheque that killed two American soldiers.

Nearly all the passengers on Air Malta flight 180 on the morning of the bombing were summoned to the court to confirm that they had collected their bags after landing in Frankfurt—to show the court that one rogue bag slipped through security to the luggage container that ended up on the PanAm flight bound first for London, and then for New York, at precisely the place in the plane where forensic tests pinpointed the blast. The only people in Malta who could have planted the suitcase—containing Semtex explosive embedded in a model of a Toshiba cassette-recorder sold almost exclusively in Libya—were the

defendants, argued the prosecution.

The defence made every attempt to sow doubt by blaming a Syrian-backed Palestinian terrorist group—the Popular Front for the Liberation of Palestine-General Command—which had been originally suspected of the bombing. A police raid on the group's hideouts in Germany two months before the Lockerbie bombing had turned up Semtex-based explosives built into Toshiba cassette-recorders.

Defence lawyers also savaged some of the prosecution's main witnesses, including Abdul Majid Giaka (his trial pseudonym), a Libyan informant who claimed to have seen the two defendants smuggle a suspicious suitcase through Maltese customs on the eve of the explosion. Mr Giaka, the defence pointed out, reported this to his CIA handlers only a year and a half later, when the Americans threatened to sack him unless he came up with some useful information.

In a meticulous 82-page verdict, the judges reviewed all this evidence, dismissed the weakest points of the prosecution case, including much of Mr Giaka's testimony, and conceded that "there are a number of uncertainties and qualifications." They nevertheless concluded that what remained formed "a real and convincing pattern. There is nothing in the evidence which leaves us with any reasonable doubt as to the guilt of [Mr al-Megrahi]." The judges were especially struck by his strange movements and behaviour, his frequent trips on a false passport, his role in Libyan intelligence and his presence in Malta on certain dates.

The victims' relations are delighted that the Libyan regime's involvement has in effect been established. But they are also anxious that the verdict should not be the end of the matter, and that Colonel Qaddafi, who most believe ordered the bombing, should not escape blame.

Creative diplomacy v justice

The verdict presents the American and British governments with a number of headaches. Most UN sanctions against Libya were suspended almost two years ago, when the two suspects were surrendered. Resuming sanctions now would be almost impossible. Support for them among other countries has crumbled. American and British companies are anxious not to be left out of the scramble for business in Libya, whose large oil and gas exports were untouched by the sanctions, and which has plenty of money to spend.

Yet the court's finding that a Libyan intelligence agent perpetrated the bombing, if upheld on appeal, points the finger directly at Colonel Qaddafi. Little happens in Libya without his say-so. It is difficult to believe Mr al-Megrahi acted on his own. Moreover America and Britain years ago set what look like six tough conditions for Libya to meet before they would lift sanctions.

Creative diplomacy might remove these obstacles. Libya can claim to have met three of the six conditions—abandon terrorism, send the two suspects for trial and co-operate with a separate investigation into the bombing of a French airliner. Now it has to meet the other three—reveal all it knows about the Lockerbie bombing, accept responsibility for it and compensate the victims' families. Libya, which earlier said that it would pay any compensation imposed by the court, now agrees that it will consider doing so once an appeal has run its course. But, in an early response this week, it said that it would "never" accept responsibility for its official's involvement. Even so, a form of words could be devised that did not explicitly admit state collusion in the bombing. This might satisfy the three governments.

The real obstacle remains the victims' families, who are unlikely ever to accept a verbal figleaf to cover the condition that Libya should reveal all it knows about the bombing. They are not interested in diplomatic fudge. They want justice.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Zimbabwe

Blunt weapons

Feb 1st 2001 | HARARE
From The Economist print edition

THERE is much to complain of, but it is not always safe to do so. On January 28th, expertly-laid bombs shredded the presses where the *Daily News*, one of the loudest critics of President Robert Mugabe's government, was printed. A semi-literate note was found at the scene, claiming responsibility in the name of a hitherto unheard-of faction of the main opposition party, the Movement for Democratic Change (MDC). Many Zimbabweans suspected Mr Mugabe's thugs.

Reuters

Tomorrow's edition in doubt

Perhaps by coincidence, Mr Mugabe's spokesman had threatened to "silence" the *Daily News* the previous day. The day before that, three of the paper's journalists had been arrested and Chenjerai "Hitler" Hunzvi, the man in charge of intimidating Mr Mugabe's opponents, had promised to ban the paper. Last June, a bomb narrowly missed killing the editor, Geoffrey Nyarota. An independent assessment of the damage at the *Daily News* presses concluded that only the Zimbabwean security forces had the know-how to have caused it.

To stay in power, Mr Mugabe seems to believe that he must squash the independent press, the MDC and any dissent within his own party, ZANU-PF. He does this with skill and cruelty.

In January, his minions thrashed the MDC at a by-election in Bikita West. Mr Mugabe sent gangs to rough up anyone in Bikita suspected of intending to vote for the MDC. Some were beaten and then dumped in a distant lion sanctuary. Chiefs were ordered to herd their followers into the voting booths to back ZANU. The party won easily, but the thugs stayed behind to torture those suspected of having voted for the opposition.

Within ZANU, Mr Mugabe uses less violence. Moses Mvenge, a former ZANU chief whip, who was ousted last year for obstructing the award of public contracts to Mr Mugabe's relations and cronies, claims that almost no one in the party still believes that the president is good for the country. But many of the most senior and ruthless leaders worry that, if he goes, they will have to pay for 20 years of trousering bribes and cracking heads. Top generals fear the same.

A chance to discuss possible successors arose at a party conference in December. But Mr Mugabe made sure the issue did not come up. Delegates were picked by provincial party men, appointed by the president. Potential troublemakers were excluded.

Yet, despite Mr Mugabe's best efforts, ZANU is divided. Its more sensible members would like to ease the president into retirement. But he does not want to go, and there is no obvious successor. His personal favourite, the speaker of parliament, Emmerson Mnangagwa, has the advantage of being widely feared. As a former army and secret-police chief, his hands are as bloody as Mr Mugabe's. But he has the disadvantage that no one likes him.

Eddison Zvobgo, a former justice minister, expelled from the Politburo for challenging Mr Mugabe, has much support in his native Masvingo province, but is gravely ill. The finance minister, Simba Makoni, has fewer fresh smudges on his record than most, having been out of government for years. But he is struggling with his current job: it is hard to balance the books when your boss has scared off investors and spends unbudgeted billions on a far-off war in Congo.

Mr Mugabe's hold on power is strong, but brittle. The more force he uses, the angrier Zimbabweans become, and the more force he must use to keep them down. His bullies can easily bludgeon a single constituency. But he faces a nationwide, direct presidential election next year, and it will be harder to intimidate the whole country.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Angola

Hearing complaints

Feb 1st 2001
From The Economist print edition

IN HIS 21 years as president of Angola, Jose Eduardo dos Santos has never taken kindly to criticism. Most Angolan politicians have learned from bitter experience not to cross him. But recently a tiny political party, PADPA, took the president on, and—to general astonishment—won.

PADPA decided to speak up over a political scandal in France in which an array of well-connected Frenchmen, including Jean-Christophe Mitterrand, the eldest son of France's former president, François Mitterrand, are under investigation on suspicion of profiting from the illegal sale of arms worth $633m to the Angolan government. As the case has proceeded, Mr dos Santos's name has cropped up repeatedly. Prosecutors have alleged that he approved the deal, granted Angolan diplomatic passports to the two principal arms dealers (one now in a French prison, the other on the run from an Interpol arrest warrant) and received some extravagant presents from the weapons men in return.

Last week PADPA sent a letter to the president, demanding that he should give a public explanation of his role in this and other corruption scandals. If none were forthcoming within 72 hours, PADPA promised it would "call on the people to protest publicly and call for your resignation, for dishonouring the office which you occupy".

The president's response was a deafening silence. So three days later 25 members of PADPA began a hunger strike in front of the recently and lavishly redecorated presidential palace. They distributed a pamphlet that repeated the charge, widely believed by Angolans, that the government is deliberately prolonging the country's devastating civil war in order to pillage its rich natural resources. "Thousands of Angolans are dying of hunger because the country is mismanaged," declared the pamphlet, "and the holders of power have turned into a band of thugs who pretend to be managing a bank. Our bank. Our petrol. Our diamonds. Our riches. But, above all, our children, parents, brothers and cousins, whom they use as fodder for their diabolical cannons."

Angola's cowed people rarely voice such strong sentiments. This time riot police used the cover of darkness to break up the protest, beating the protesters. Six of them, including PADPA's president, were arrested. But astonishingly, given the lack of independence enjoyed by Angola's judiciary, the court that tried them found them not guilty on January 30th. In a hitherto unthinkable step, PADPA is now considering bringing a case against the police for violating its right to demonstrate and for illegal imprisonment.

This is the second time that PADPA activists have dared challenge the Angolan regime. Last year they tried to hold a public hunger strike in protest at the government's decision to raise the price of petrol overnight by 1,600%. On that occasion police beatings turned the hunger strikers into popular heroes. The authorities, realising their mistake, issued a public apology. But the incident gave Angola's other, more reticent, opposition groups the courage to organise the first and only real anti-government march in the country's 25 years of independence. Perhaps the latest court ruling, which for the first time has set the people's rights above those of the president, will open the floodgates of protest at last.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Iran

Khatami's cautious broom

Feb 1st 2001 | TEHRAN
From The Economist print edition

Neither Iran's judiciary nor the president wants a clean sweep

WHEN Muhammad Khatami, Iran's president, forced the intelligence ministry to own up to the gruesome murder in 1998 of four dissidents—two writers and a reform-minded politician and his wife—many people hoped that accountability for the killings would be stretched beyond the assassins and their accomplices to the conservative politicians and judges suspected of ordering them. This has not happened. On January 27th, a Tehran judge handed out heavy punishments, including three death sentences, to 15 agents found guilty of planning and carrying out the deeds. The well-connected masterminds behind the killings were free to read of the convictions in the newspapers, at their leisure.

EPA

Remembering the murdered dissidents

The judges and prosecutors in charge of the case ignored the scores of earlier murders and abductions that investigative journalists, in particular Akbar Ganji, had attributed to the same agents. Mr Ganji has been put behind bars. Moreover, when one of the accused, Mostafa Kazemi, who was jailed for life, claimed that Ghorban-Ali Dorri Najafabadi, a former intelligence minister, had ordered the killings, Mr Dorri Najafabadi was politely interviewed, and exonerated.

The progress of the investigation, which started in 1998, has been shambolic. When it was announced that Saeed Emami, the only senior ministry official among the accused, and the man with the most beans to spill, had killed himself in jail, rumours of foul play abounded. The first set of interrogators were dismissed amid claims that they had beaten "confessions" from the accused. The trial itself was held behind closed doors. The families of the victims boycotted it.

Siyavash Mokhtari, the son of one of the victims, said bitterly that "sending a few bureaucrats to the gallows will not dismantle the structure that lies behind the murders." But a closer look suggests that the process may have gone much the way that Mr Khatami wanted it to: the president is in the business of rejuvenating Iran's tired Islamic republic, not undermining it.

When he forced the intelligence ministry to confess to its role, and subsequently got Mr Dorri Najafabadi to resign, Mr Khatami's aim was not to bag conservative scalps. He wanted to reform the ministry, and cast light into its murkiest corners. The ministry's admission of guilt would have been unthinkable under Mr Khatami's predecessor, Ali Akbar Hashemi Rafsanjani.

Ali Yunessi, the new intelligence minister, is closer to Mr Khatami than was Mr Dorri Najafabadi, who had been foisted on the president by Ayatollah Ali Khamenei, Iran's conservative "supreme leader". Like Mr Khatami, Mr Yunessi talks reassuringly of accountability and pluralism. More important, he seems to have halted extra-judicial killings, which are said to have averaged one a month for much of the 1990s. He is said to frown on torture as a method of interrogation. He has purged some unpleasant characters.

Under his influence, the ministry has lost some of its autonomy. Gone are the days when a senior bureaucrat such as the late Emami could exploit this autonomy to sabotage Mr Khatami's efforts to mend Iran's international image. Emami was behind the 1998 arrest of a German businessman for having illicit sex with an Iranian woman, a diplomatic knot that took two years to untie. The ministry is also detaching itself ideologically from hardline judges, with whom it used to be in close alliance.

On Monday Mr Yunessi denounced the trial verdicts as "seriously flawed". Some people thought they

detected Mr Khatami's voice behind this criticism. With enough political will, it might even be possible to revive the case. But that is not the president's priority. It looks as if he has decided that it is in the interests of the Islamic republic that some dirty stones remain unturned. In a way, the whole incident sums up Mr Khatami, and his limited ideas for changing the country.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Only fakirs need apply

Feb 1st 2001
From The Economist print edition

As another contest for third-generation mobile telephone licences in Europe fizzles, the industry faces a massive bout of retrenchment

RATHER like the network signal that begins to break up on a mobile telephone—"Hello, hello. Are you still there?"—the first signs are emerging of serious trouble in European telecoms companies' huge gamble to launch third-generation (3G) wireless systems.

When the bidding closed on January 31st for the four French licences on offer at FFr32.5 billion ($4.6 billion) each, only two firms had submitted offers. Germany's Deutsche Telekom and other operators withdrew late last year. France's Suez Lyonnaise des Eaux and its Spanish partner, Telefonica, backed out last week. Then, at the eleventh hour, Bouygues Telecom, which has German and Italian partners, also dropped out, grumbling that the price France is demanding for a 15-year licence no longer reflects economic reality. Laurent Fabius, France's finance minister, said a second contest would be held for the two remaining licences. France's telecoms regulator has advised him that this is necessary to guarantee proper competition, as the two firms that did put in offers are already the country's biggest mobile operators.

After Italy, Austria and Switzerland, France is the fourth country in which interest in 3G licences has stalled after wild bidding drove up prices in Britain and Germany. This led governments to expect windfalls everywhere: France has already earmarked most of its 3G-licence proceeds to fund pensions.

For telecoms operators, the licences are important: to remain competitive, established operators need to upgrade their existing second-generation, or GSM, mobile networks, whereas newcomers could use the 3G licences to get into the game. The licences are also being used by telecoms groups to build pan-European operations through a series of partnerships. But the huge costs involved and uncertain revenue projections from much-hyped—but as yet unproven—wireless services have begun to fray many nerves. As debts have grown, some telecoms executives have begun to worry that a business in which Europe has taken a global lead is about to crash.

Buying 3G licences in Europe through auctions and other processes, such as France's fixed-fee "beauty contest" (in which operators were supposed to be judged on the quality of their plans), is likely to cost telecoms firms a cool $150 billion up front. This has already increased debts to worrying levels and telecoms firms have seen their credit ratings slashed. On top of that, they have taken a pasting with the overall slump in the value of technology stocks: Deutsche Telekom and British Telecom each saw around half of their market value disappear last year.

But this is only the beginning of their worries. Building 3G networks could cost another $150 billion, and marketing the new services billions more. At the same time, the likely earnings from whizzy new offerings, including the mobile Internet and broad-bandwidth services such as video, could turn out to be

rather thin.

Safety in numbers

Amid the fiasco in France, the signs of consolidation among worried telecoms firms are growing. On January 23rd, two of the four groups that won 3G licences in Sweden said they would share the same infrastructure for their networks rather than each build their own aerials and base stations. Similar cost-saving measures could be adopted in other parts of Europe, where licence conditions allow or regulators can be persuaded to be lenient. Governments may also come under pressure to provide rebates on 3G licence fees or to accept lower levels of service.

All this would affect equipment suppliers, which are heavily exposed to the operators' woes thanks to the billions of dollars of "vendor financing" they have extended. On January 26th, Sweden's Ericsson said it will contract out the manufacturing of nearly all its handsets to a Singapore-based firm, Flextronics, to help contain its costs.

Operators that do not face stringent licence conditions or do not have large fees to recover may delay the launch of 3G while they concentrate on general packet radio service (GPRS). This technology, sometimes called 2.5G because it acts as a stepping stone towards the third generation, can offer features such as a high-speed "always-on" Internet access over existing networks that have been upgraded. In contrast, 3G services require the building of a costly new network. Not only will it take time for the new networks to duplicate the coverage that the more than 200m mobile telephone users in Europe are already used to, but the fancier the services that operators plan to offer, the more difficult and costly this will be.

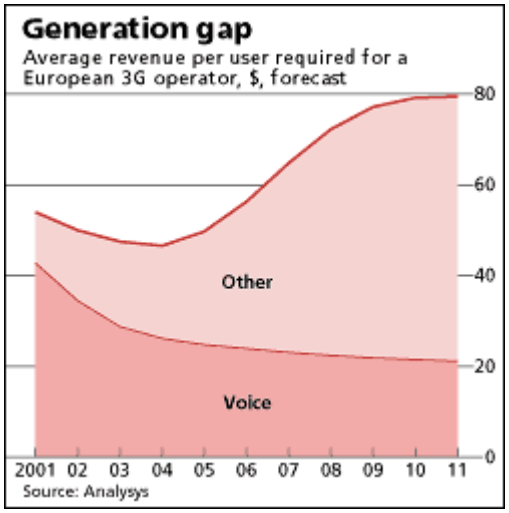
The 3G technology uses a higher frequency than GSM to transmit and receive information. The consequence of this is that each base station has a much shorter range. In rural areas, at least, 3G networks would require 4-16 times as many base stations to get the same coverage as GSM. Likewise, the higher the data rate, the more base stations are needed to cover the same area. In a city, for instance, a 3G base station might have a range of only 200-500 metres—half the range of a GSM station. And more stations means not just a bigger engineering challenge but also an additional environmental one. Many local communities already object to the proliferation of mobile-telephone masts turning their landscape into a giant pin-cushion. Some have also raised health concerns about radio emissions.

On top of that are questions about the availability of chips required for handsets and other equipment. Nokia said this week it will have to delay the launch of its GPRS handset, which suggests that even the stepping stone to 3G is running late. The processing of vast amounts of data, especially video, will also eat into handsets' battery life.

The experience gained from WAP (wireless application protocol) phones, which were released last year, is not encouraging. But WAP is extremely clunky compared with what 3G should offer. The best way telecoms firms can generate future revenues from 3G networks is simply to provide customers with mobile access to the Internet, reckons Herschel Shosteck, a telecoms consultancy based in Washington, DC, in a report published this week. It believes that complicated high-bandwidth applications, such as the ability to download large chunks of video, are best left to others.

Of course, the third generation of handsets will also be extremely good at lowering even further the cost of what most people use mobile telephones for: talking to one another. The trouble is that this means the proportion of money that 3G operators can expect to earn from voice traffic is set to plummet. Forecasts by Analysys, a British consultancy, suggest that in ten years' time operators may depend on what are at present embryonic or unknown services for two-thirds of their revenue (see chart).

That, of course, only applies to those operators which manage to stay in business that long. Some analysts think massive consolidation is imminent. From dozens of operators, only five giant telecoms groups could end up providing all of Europe's mobile services by 2008, reckons Forrester Research, an American consultancy. It expects those groups to include Vodafone, T-Mobil, France Telecom/Orange, BT Cellnet and some combination of whatever remains of the others. None of the new entrants, which lack an existing customer base, is expected to survive in its existing form. As France discovered this week, the price of competition can sometimes be set too high.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Defence contractors

Arms across the sea

Feb 1st 2001
From The Economist print edition

ON BOTH sides of the Atlantic, big defence contractors are getting even bigger. But as new management takes over the sector's most important customer, America's Defence Department, industry-watchers cannot decide whether the spectre of a bruising battle between fortress America and fortress Europe is receding or drawing closer.

What looks clear is that if the industry's bosses were left to themselves, they would be stitching together transatlantic alliances at an accelerating pace. The strongest evidence for this has been the success of Thales (formerly Thomson-CSF), a French electronics group, in recasting itself as a global company and establishing a joint venture with America's Raytheon. Northrop Grumman, also of America, and Franco-German EADS are also starting to co-operate more closely. Britain's BAE Systems is already a big player in America; it received a boost last month when the British government secured a privileged stake in developing the (mainly American) Joint Strike Fighter (JSF), the largest-ever military procurement programme.

With all this joining of hands across the sea, why should there be any cause for alarm about a souring of transatlantic defence-industrial relations? First, because Donald Rumsfeld, America's new defence secretary, will face conflicting advice. Some Republicans want to guard defence technology more closely, in contrast with the "laxity" of the Clinton era; but there will be pressure in the other direction from the big contractors, which argue that America's interests are served by deeper industrial co-operation with allies.

As a sign of how quickly hackles can rise, take the reaction to a sensible-sounding plan by the Clinton administration to speed the approval of military-equipment sales to favoured allies who are prepared to match America's defence-export restrictions. In Washington, this plan has been presented as a way of remedying the weaknesses in European defence; among Europeans, it has been perceived as a "divide-and-rule" strategy or a cynical sales pitch for American goods. Europeans are dismayed by America's insistence on negotiating over defence-export regimes on a country-by-country—and ultimately, company-by-company—basis, instead of dealing with a block of allies, such as the six European nations that agreed last summer to harmonise controls on military technology.

There is also a risk that transatlantic ties will be soured by broad policy differences: for example, over America's missile-defence plans or Europe's hopes for military self-reliance. Optimists point out that either of these projects, if handled skilfully, could foster links across the Atlantic; but so far they have generated more heat than light. In civilian aerospace, meanwhile, Americans are already grumbling over the launch aid promised to Airbus for its new "super jumbo".

Among the biggest wild cards, though, is whether the Pentagon proceeds with the JSF. Doubts about the project's future have been fuelled by the Bush administration's hints of "skipping a generation" of defence technology. But if the JSF goes ahead, it will present hard, perhaps unbeatable competition in many markets for the Typhoon (better known by its old name of Eurofighter), produced by four European nations. As Chris Avery, an aerospace analyst with J.P. Morgan, points out, Europe's arms makers will soon find themselves with a lot of hardware rolling off their assembly lines, including two new fighters and three new helicopters. European budgets will be hard-pressed to absorb all this metal, so there will be a desperate need for export sales.

This is the sort of environment in which tempers get frayed. Among the Europeans, predicts Alexandra Ashbourne of Ashbourne Beaver Associates, a defence consultancy, there could be mounting irritation over the difficulty of selling to the Pentagon—unless Mr Rumsfeld uses all his political capital to overcome the "buy American" lobby. On Capitol Hill, meanwhile, there will be anger with Europe's wish to capture lucrative contracts without "sharing the burden" of defence spending.

Still, seasoned aerospace-watchers such as Pierre Chao of CSFB believe the forces in favour of transatlantic links—including the globalisation of related businesses such as space, telecoms and electronics—will ultimately prevail over political obstacles. “Economic realities will grind away, and over time a transatlantic defence industry will become inevitable,” he believes. Perhaps so, but how much time?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Russian media

Bad vibes

Feb 1st 2001 | MOSCOW
From The Economist print edition

FINANCIALLY crippled and politically controversial, Russia's third television station, NTV, might seem an unattractive investment, even by the dismal standards of the former Soviet Union. But in past weeks foreigners including George Soros, Ted Turner and the European Bank for Reconstruction and Development (EBRD) have expressed interest in buying a slice of the troubled channel.

NTV is the most important media outlet in Russia not under the Kremlin's control. Like other Russian channels, it mostly broadcasts the usual pap of quiz shows and Hollywood cast-offs. Unlike the others, it has lively and critical news and current-affairs programmes. The Russian authorities dislike this, and loathe NTV's founder, Vladimir Gusinsky, who in 1999 enthusiastically backed their political rivals. As a result, he, his media empire and its employees have been under persistent attack in the past year. The finance chief, Anton Titov, is currently sharing a cell with 37 other inmates in one of Moscow's most dangerous and squalid jails. Mr Gusinsky himself was jailed briefly last summer, and then fled to Spain, where he is fighting extradition charges.

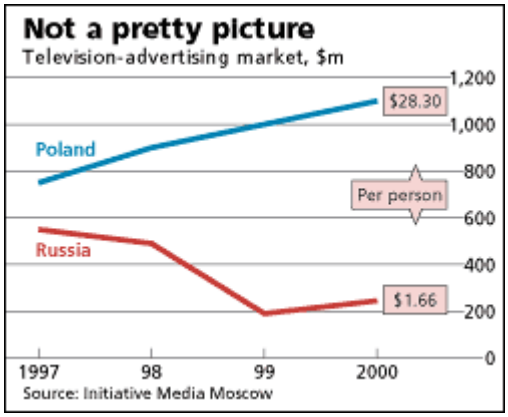
NTV is also under attack by Gazprom, Russia's national gas company, in which the state is the largest shareholder. NTV owes around $300m to Gazprom, which has gone to court to seize 19% of the company's shares, pledged as collateral, to add to the 46% of NTV it already owns. Last week, Gazprom claimed victory and said it would take control at a shareholders' meeting later this month. Meanwhile, the authorities are trying to have Mr Gusinsky's media empire declared bankrupt for failing to pay taxes.

Mr Gusinsky is hoping to sell 25% of NTV to a group of foreign investors, led by Mr Turner. That, NTV says, would raise enough money to pay its debts to Gazprom. Last year, Gazprom said it would accept an outside investor. But Mr Turner is interested only if the Kremlin gives a clear guarantee that it welcomes the deal.

So far, that has looked unlikely. This week, President Vladimir Putin released an anodyne letter he had sent to Mr Turner, welcoming foreign investment in Russia, but not mentioning NTV specifically. That suggests that the Kremlin actually wants to bring the channel to heel—in which case the main journalists say they will leave.

Why are investors interested at all? NTV's assets are flimsy: its frequencies, a battered brand and about a quarter of an advertising market that was puny even in last year's oil-fuelled economic upturn (see chart). Moreover, buying minority stakes in Russian firms is a famously good way of losing money—as Mr Turner, Mr Soros and the EBRD have already found to their cost.

The deal would make a bit more sense if the outside investors were planning to buy more shares and take control. But the Kremlin is already twitchy about foreign influence in the media. Letting two exotic tycoons take over the country's most influential television station would be an unlikely leap in the other direction.



The tussle over NTV underlines some important facts about business in Russia: property rights exist only with the authorities' consent; the law means what the Kremlin wants it to mean; and the wrong political connections can be fatal. What remains to be seen is first, whether the government will tolerate television outside its control so long as Mr Gusinsky is not involved; and second, whether Russia will allow foreign investors, however generous and naive, into businesses that the authorities regard as politically sensitive.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Face value

Stretching the plaid

Feb 1st 2001
From The Economist print edition

It took an American to turn an unfashionable British clothing label into a coveted luxury brand. Has Rose Marie Bravo built Burberry to last?

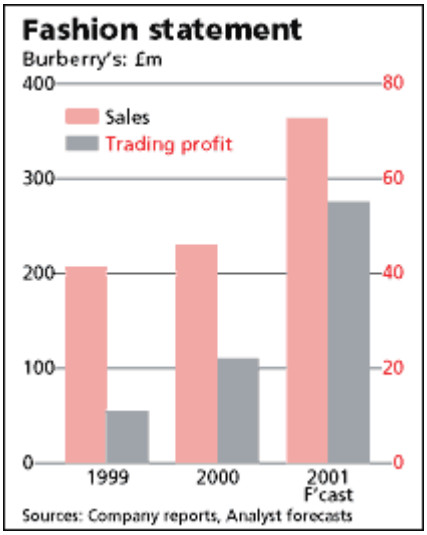
BRITAIN is in the grip of Burberry mania. Two years ago, the label was shunned by all but Asian tourists for its naff plaid-lined raincoats that not even dead men would be caught wearing. Today, everyone from Posh Spice to Cherie Blair, who wore Burberry to the state opening of Parliament, is sporting its signature camel, black and red plaid design. Tamara Beckwith (a party girl, apparently) dresses her dog in it, and Kate Moss prompted a run on Burberry's teeny-weeny bikini after the supermodel wore one in an ad. And the company, owned by Great Universal Stores (GUS), a British retailer, is on track for a flotation that could value it at up to £2 billion ($2.9 billion).

That the woman behind this transformation, Rose Marie Bravo, is an American should come as no surprise. British companies are more than willing to look across the Atlantic for help. Pearson, a media group that owns 50% of *The Economist*, called on Marjorie Scardino, a Texan, to tidy up its assets. Reuters recently named Tom Glocer as its first non-British chief executive. Even the London Underground, that most frustratingly British of institutions, has turned to an American, Bob Kylie, who transformed New York's subway, to help its trains run on time.

Ms Bravo was hired by Burberry in 1997 after five years as president of Saks Fifth Avenue, a sleepy retailer that she reinvigorated by spotting winning fashion trends early (Saks was one of the first American stores to stock Gucci loafers). What she found was not encouraging. Burberry was a neglected backwater of the GUS empire, churning out the same lines each year and exporting heavily into the Asian grey market, where its products were either sold cheaply or, worse, re-imported to Europe and flogged at a discount. This merry-go-round kept revenues flowing, but was slowly killing the brand. "Burberry was a mess," Ms Bravo says. "I had many evenings of tears. My parents visited me in Hackney [a borough in London's insalubrious east] and asked: 'You left Fifth Avenue for this?'"

The one thing Burberry had going for it was its heritage as a classic—though very male—British sporting brand. Roald Amundsen had worn Burberry overalls on his first polar expedition in 1911. What the company needed, Ms Bravo saw, was better operational and financial controls and a drastic make-over to broaden its appeal.

So Ms Bravo slashed grey exports to Asia and renegotiated Burberry's cumbersome licensing and distribution structure. She also pulled the brand out of small tourist shops and pushed it into important stores—bizarrely, Burberry had never been available at Harrods, London's swankiest department store. Next, she picked a hip young designer, an Italian-American called Roberto Menichetti, to dream up clothes that would appeal to young women. He extended the range from trenchcoats and scarves to skirts and ball gowns, and he played with Burberry's traditional colour scheme, introducing edgier combinations such as pink with grey. The new double act then persuaded celebrities to wear Burberry. "Getting our bikini on Kate Moss cut the average age of our customers by 30 years in one fell swoop," smiles Ms Bravo. The strategy is starting to work (see chart).



Fashionable but fragile

Building on this success, however, is the real challenge. Ms Bravo must strengthen Burberry's still-fragile new image, while extending its reach both by product line and geographically. And she has to do this under the pressure of an impending flotation, scheduled to take place during an economic slowdown that could tip into recession.

Amid all this frenetic activity, there is a danger of overstretching the brand. Burberry's plaid has already been splashed on everything from umbrellas to coasters. This has worked so far, but it could backfire if Burberry comes to be seen as more common than chic. Analysts worry that the brand is not yet established enough to stretch easily across new categories, which include houseware and accessories such as perfume and shoes (where most luxury-goods groups make their money). For every Polo Ralph Lauren, which has pulled off such a diversification, there is a Laura Ashley that has not. It is certainly not a process to be rushed.

Ms Bravo recognises this risk. "Last season was the season of the logo," she explains. "We capitalised on it, but it was just a moment." The upcoming autumn collection, by contrast, will feature many lines that are hardly recognisable as Burberry, with any plaid subtly hidden from view. The trouble with this, however, is that many consumers will continue to want to buy Burberry for its famous pattern. If the new designs prove unremarkable, the name alone will be unlikely to save them.

Burberry has another problem: its appeal is untested globally. It is clearly a great success at home, with the British proud to "back an underdog and fly the flag," says Ms Bravo. But it has not penetrated many other markets: half of its sales come from just two countries, Spain and Japan. America is unconquered territory, as are Europe's centres of *haute couture*, France and Italy. Encouragingly, this may be changing. Gathering armfuls of bags from Burberry's flagship New Bond Street store in London, Renata, a 50-something from Paris, purrs: "I hated Burberry when I was young—it was so old-fashioned. Now my friends in Paris say: 'How stylish, how British.'"

Even so, Burberry's days as an independent company may be numbered. Small luxury-goods firms with a single label are becoming an endangered species in an industry that is increasingly dominated by multi-branded powerhouses such as LVMH and Gucci. Ms Bravo may yet find that she has pulled Burberry from the obscure depths of one conglomerate, only to see it swallowed up by another.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Cutting back at Chrysler

Feb 1st 2001 | DETROIT
From The Economist print edition

THE cull has begun. Chrysler's German overlords this week mounted a dramatic assault on the growing losses at DaimlerChrysler's ailing American subsidiary. At least 26,000 jobs will go in a reorganisation that will close six plants and trim production at seven more. And there is more to come: further cuts are likely to be announced next month.

Although Chrysler's manufacturing capacity will be reduced by 15%, analysts had expected even more closures, and noted the absence of any American assembly plants on the list. The plant in Belvidere, Illinois, which produces the slow-selling Neon, seemed a sure bet to be shuttered, but Chrysler inadvertently outsmarted itself two years ago, when it agreed to restrictions on plant shutdowns as part of its contract with the United Auto Workers union. At the time, company negotiators seemed sure that they would need more, not less, production in the near future.

The overhaul comes not a moment too soon. Once seen as the leanest manufacturer in the business, Chrysler is now derided as bloated, with products that look dowdy in today's increasingly competitive marketplace. Forced to offer incentives of up to $10,000 per vehicle to clear out its old minivan line-up last autumn, the firm is believed to have run up losses of $1.4 billion during the final quarter of 2000—which could drag all of DaimlerChrysler into loss. So low have DaimlerChrysler's shares fallen in the past year that it has hired a group of investment banks to advise it on heading off a possible takeover bid.

Rumours abound that Dieter Zetsche, Chrysler's newly installed German boss, will take an axe to Chrysler's product range. For now, though, Mr Zetsche insists that Chrysler needs more, not fewer, products to become more competitive in a market that is quickly fragmenting into tightly focused niches.

With his customary three-piece suit and walrus moustache, Mr Zetsche does not blend in easily with Chrysler's casual American cadre. Although many Chrysler employees resent the direction that its 1998 merger with (read: takeover by) Daimler-Benz has taken, insiders admit that Mr Zetsche is scoring some points. His predecessor, Jim Holden, seemed almost paralysed in his final months in the job. Mr Zetsche, on the other hand, is moving fast and is admired as a "car guy" who sees product development as the key to success. "He understands what we're all about," says one Chrysler engineer, somewhat grudgingly. So the car maker's Teutonic troubleshooter has credibility. All he needs now is success.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Soft drinks

New formula Coke

Feb 1st 2001
From The Economist print edition

Not much has gone right for Coca-Cola recently. Can the world's biggest soft-drinks firm recapture the fizz that made it great?

THE past three years have been among the most traumatic in Coca-Cola's history. Profits slumped, competition investigators circled, deals fell apart and investors came to suspect that the firm had lost its way. It also lost a boss: in December 1999, two non-executive directors, Herb Allen and Warren Buffett, forced out Doug Ivester, little more than a couple of years after he had been propelled into Coke's top job by the death of the legendary Roberto Goizueta.

AP

Touchy-feely Daft

Some of Coke's problems on Mr Ivester's watch were beyond its control, particularly the economic crisis in Asia and growing disillusion with symbols of globalisation in Europe. But others could be pinned firmly on management. Pepsi was beating Coke in America, even as Pepsi shifted its focus towards salty snacks. Even worse, a clod-hopping approach to antitrust issues in Europe, a badly handled product-safety imbroglio in Belgium, an embarrassing racial-discrimination case and growing discontent among bottlers after big increases in syrup prices, had all cost Coke dear. "The business broke down in 1999. We had turned in on ourselves," says Charlie Frenette, who runs Coke's operations in Europe.

The board's choice to succeed Mr Ivester was a 56-year-old Australian called Douglas Daft, who had spent so much of his 30 years at Coke in Asia that he was barely known at the firm's Atlanta headquarters. This lack of ties may have helped Mr Daft in his first task, which was to take an axe to costs in an Orwellianly named "realignment". Within weeks he had identified nearly 6,000 employees, many of them senior and middle managers in Atlanta, who could follow Mr Ivester out of the company.

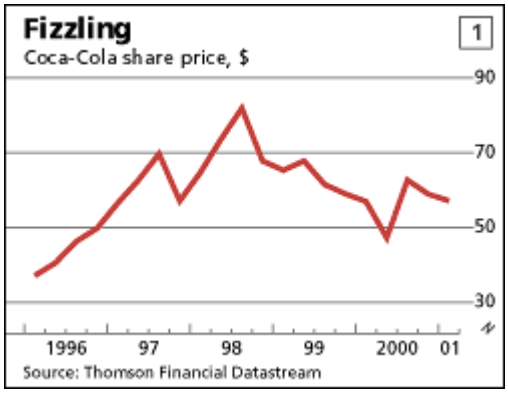
The truth was that Coke had become a slow-moving, centralised bureaucracy, dangerously out of touch with local market trends. "If I wanted to launch a new product in Poland, I would have to put in a product approval request to Atlanta," says Mr Frenette. "People who had never even been to Poland would tell me whether I could do it or not." From the moment he took charge, Mr Daft set out to devolve power to regional and country managers and to dismantle Atlanta's command-and-control culture.

Having got the blood-letting out of the way quickly, Mr Daft has spent the past year building the foundations for a return to Coke's glory days. The new strategy is to respond faster to changing consumer tastes by "thinking local, acting local" and to boost growth by selling more of the non-fizzy drinks that are taking market share from traditional sodas. It is a formula that served Mr Daft well in Asia, where Coke now sells more than 250 different drinks.

The scale of the challenge is evident in the full-year numbers that Coke released this week. After allowing for the costs of the "realignment" and other write-downs, operating profit is around 7% more than in 1999, its *annus horribilis.* But net profit, at $2.18 billion, is little more than half the figure for 1997, Mr Goizueta's last year at the helm.

The target that Mr Daft has set for Coke over the next decade is ambitious. Volume growth, he promises, will be 7-8% on average each year (compared with last year's 4.4%). Andrew Conway, Morgan Stanley's beverages analyst, thinks that achieving this will be tough. An 8% annual increase in volume suggests total sales of 35 billion "unit cases" (the industry's standard measure) by 2010.

Having taken 111 years to reach 17.1 billion cases, can Coke really double that in less than ten years? To reach his targets, Mr Daft knows he must first push the Coke brand, which still accounts for 60% of overall sales, and the other traditional carbonated soft drinks, such as Sprite and Fanta, to volume growth of 5-6% a year.



But what is likely to test Coke's new structures even more severely is the requirement for newer non-carbonated products—such as ready-to-drink teas and coffees, waters, health drinks and juices—to contribute the remaining two percentage points of growth. Mr Conway calculates that this means "non-carbs" will need to double their present growth to about 20% a year by volume, becoming 25% of the business compared with 10% today.

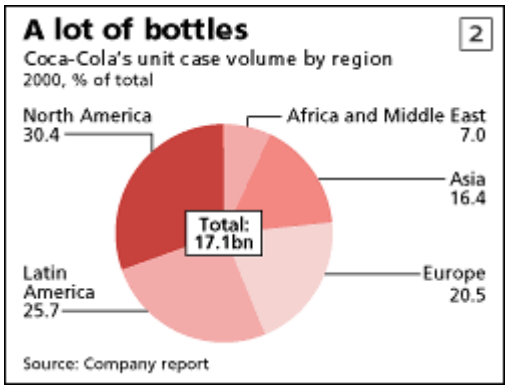
The turbocharging of the non-carb business will require nothing less than a new business model centred on innovation and the invention of new brands. Mr Frenette sees Europe, with its varied national markets, as the perfect test-bed for this. He says: "We will identify trends, incubate products, get information back fast." He gives two recent examples of Coke's new approach. Fanta Exotic was launched after a successful trial in just four months, compared with three to five years under the old system. And Burn, a new night-time energy drink for clubbers that began life in Australia, was launched in Britain within 60 days, using only "viral" (word-of-mouth) marketing.

Mr Frenette sees his job as one of encouraging regional managers to think imaginatively when it comes to launching new "short-cycle fashion brands", and to overcome their fear of doing anything to damage their short-term financial targets. To achieve this, he says he is prepared to act as a venture capitalist, investing the firm's money in any promising prospectus from a passionate local boss.

Jeremy Schwartz, marketing and innovation director for Europe and Asia, says that what matters now is to be "relevant at the moment of need". To that end, he puts the drinks Coke sells into four boxes: the main brands are all about refreshment; then comes hydration, mainly waters; the third is drinks offering energy and stimulation, with caffeine and vitamins; finally come juices and milks that provide nutrition and health.

Among the new products likely to arrive later this year is a family of stimulative drinks for adults. The idea is that, as people work longer and harder hours, they will want drinks that boost energy and mental alertness but don't leave the unpleasant aftertaste or stale smell of coffee. Another drink to emerge is Alchemy. It will be aimed at women who want a sophisticated, non-alcoholic alternative for after-office social drinking. The container comes in the form of a personal cocktail shaker and the ingredients are visibly activated by shaking.

Much of Mr Schwartz's time is taken up with working out how Coke should be organised for innovation. Encouraged by Mr Daft and influenced by Silicon Valley, he is recruiting teams of between eight and twelve people with a mix of skills (from flavour chemists to marketeers) to develop new ideas and see them through to commercial launch. He has also been improving relations with bottlers, without whom nothing would happen. There is talk of forming co-operatives with the bottlers for some products, with Coke assuming more of their risk.



None of this would be possible without the backing of Mr Daft, who is determined to make Coke a more intuitive, touchy-feely kind of organisation than it was under the numbers-driven Mr Ivester. In a sugary new mission statement that is about to be sent around the company, Mr Daft even talks of "stakeholders". Despite a setback in November, when the board rejected his plan to buy Quaker Oats for $15.75 billion (nobody thought the strategy was wrong, he insists, it was just a matter of price), he has grown in stature over the past year.

One consultant, who has worked with Mr Daft over many years, describes him as "multi-layered". On the outside, you see affability and a good sense of humour. The next layer is the business pragmatist. And deep down there is a sophisticated thinker about how to create robust organisations.

Mr Daft will need all those talents and more to succeed. Although there is strong support for his strategy both within the firm and on Wall Street, there are several dangers. The biggest is that the need to keep launching new brands will shift money and management time away from Coke, still—and for years to come—the biggest profit generator. Not so, says Mr Daft: innovation will also extend to new ways of marketing and growing the Coke brand.

However, the recent experience of Unilever, the world's largest consumer-goods firm, suggests that managing a big family of brands that differ from one market to another is horribly complicated. Having bought hundreds of brands during the 1990s, Unilever called a halt just over a year ago after discovering that the costs of supporting its long tail of weaker brands were eroding margins at an alarming rate. Since then, Unilever has gone back to building a much smaller number of global brands, such as Dove, a soap sold in 75 countries. The danger for Coke is clear.

Bill Pecoriello, an analyst at Sanford C. Bernstein, sees Coke's main risk as the huge spending on marketing that will be needed to jump-start its depressed core brands and to launch the new ones. Without watertight financial controls, this could soon get out of hand. Another worry is that the new non-fizzy drinks will cannibalise the fizzy ones. And there is uncertainty about how bottlers will adapt to the increased flexibility that Mr Daft is demanding of them. It helps that they like him, but they will also have to believe in him.

Mr Daft does not look like a man under pressure—there are no signs of the amiability wearing thin. But then, at the height of his troubles in 1999, Mr Ivester claimed in a magazine interview not to be feeling any stress. Mr Daft deserves a cautious thumbs-up for what he has done so far, but he knows the real test is about to begin.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Hollywood on the Vltava

Feb 1st 2001 | PRAGUE
From The Economist print edition

WHERE is the second centre of Hollywood film making in Europe, after London? Paris, or perhaps Berlin? Try Prague. Last year, Hollywood spent over $200m on shooting movies, commercials and pop videos in the Czech capital. This year, all the big studios will be in town. MGM has “Hart’s War” starring Bruce Willis, Disney is shooting “Black Sheep” with Anthony Hopkins, and Fox has just finished filming “From Hell”, a Jack the Ripper saga starring Johnny Depp.

Praguers take Tinseltown in their stride. Old ladies looked only slightly bemused last month when the cobbled streets of Mala Strana, Prague’s old quarter, were cleared of real snow and sprayed with a more cinematically pleasing chemical alternative for Universal’s “Bourne Identity”, a $50m thriller starring Matt Damon. The film’s producer, Pat Crowley, reckons a day filming in Prague costs him $100,000, against $250,000 in Paris. Czech crews, he says, are professional, English-speaking and numerous. They are also a bargain—40% cheaper than similar crews in London or Los Angeles, points out Matthew Stillman, the British boss of Stillking, a Prague-based production firm.

Mr Stillman founded Stillking in 1993 after arriving in Prague with $500 and a typewriter. Today, Hollywood producers come to the company for crews, catering, lights and much more. It claims to have about half of the local film-production business and this year hopes for revenues of over $50m.

The biggest draw to Prague, however, is Barrandov—one of the largest film studios in Europe, with 11 sound-stages, on-site photo labs and top-notch technicians. It was founded during Czechoslovakia’s pre-war first republic by Milos Havel, an uncle of the present Czech president, Vaclav Havel. The Nazis expanded it as a production centre for propaganda flicks—the sound-stages are courtesy of Joseph Goebbels. Then came the Communists with their own propaganda and, admittedly, a few impressive homegrown directors such as Milos Forman, who began Hollywood’s march to Prague by filming “Amadeus” there.

But it is partly thanks to Barrandov that Prague remains some way behind London as a film centre. The studio has suffered from iffy management and is already stretched to capacity (“You can’t even get an office there,” moans one producer). Its present owner, a local steel company, is keen to sell but talks with a Canadian consortium have been thorny, not least because the Czech government holds a golden share. Should the Canadian deal fall through, Stillking says it would consider a bid of its own.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

We have lift-off

Feb 1st 2001 | NEW YORK, SAN JOSE AND SEATTLE
From The Economist print edition

Despite the dot.com crash, despite the job cuts announced this week by Amazon.com, the leading online retailers are big successful businesses. But the path they are following is not the one they first thought of

Get article background

"NEVER confuse a bull market with brilliance," said the Wall Street pundits when reality punctured the dot.com bubble last March. By the same token, never confuse a bear market with idiocy. It is fashionable these days to view the online business-to-consumer (B2C) market as a wreck. The share prices of the market leaders are down by anything up to 98% from their peaks. Among them lie former stars such as Priceline and eToys, both now struggling to survive. But look past the initial insanity and subsequent dismay, and imagine discovering anew the three bellwether stocks that largely set the B2C tone—Amazon, Yahoo! and eBay. By any ordinary measure, these have become remarkable businesses.

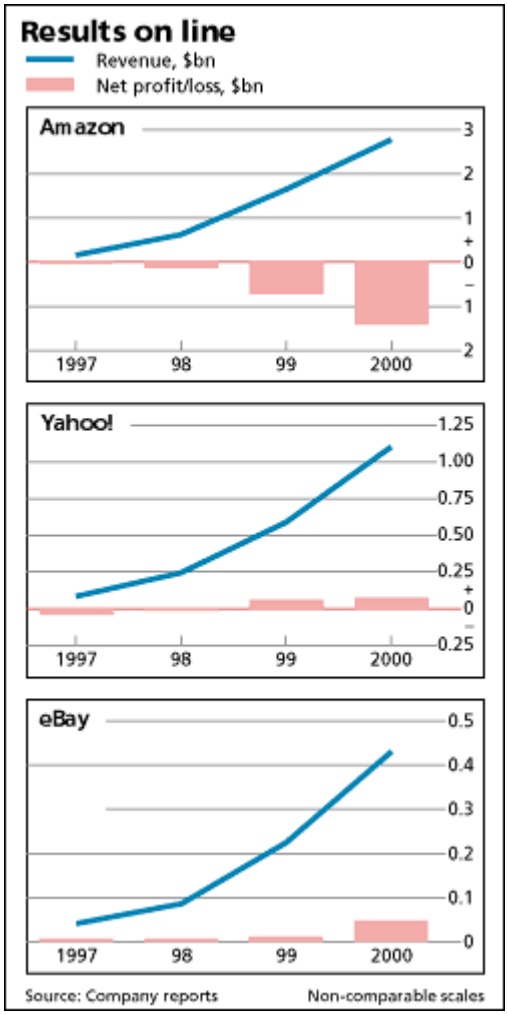
That judgment is not altered by the fact that on January 30th Amazon, the biggest of the bunch, announced that it is laying off 1,300 employees—15% of its staff—and closing a warehouse and call centre. Along with its restructuring, Amazon for the first time announced a date by which it expects to achieve "pro forma" profitability (that is, excluding losses on investments in other Internet companies and certain other items). That date is just 11 months away, no longer some undefined point in the distant future (as were its previous forecasts). If Amazon makes good on this promise—and the improvement in its operating margins suggests it might—it will be quite an accomplishment. By retailing standards, six years before making even a "pro forma" profit is not impressive. But what is extraordinary is how big Amazon has become and so quickly: nearly $3 billion of sales a year already, and on the verge of profit.

Amazon's kin are, in their own way, even more impressive. Despite a slumping advertising market that is slowing its growth, Yahoo! still has revenues of more than $1 billion a year and operating margins of 32%. Meanwhile, the other big dot.com standard-bearer, eBay, is profitable too, and growing by more than 90% a year. All three firms have expanded abroad, dominating nearly every market they have entered. Their three silly made-up names, none more than seven years old, are now among the world's best-known brands.

Even the market in which these companies operate has not turned as malevolent as the share-price falls might suggest. Yahoo!, for instance, has been punished by fears that the dot.coms, whose banner advertisements drove much of its growth in the past, will go bust or cut back on their spending. But 60% of Yahoo!'s advertising revenues come from companies other than dot.coms, and the online advertising market overall is forecast to be just flat this year, not down. Likewise, the growth in e-commerce spending may be slowing, but world online sales over Christmas 2000 (one of the worst in recent years for American retailers in terms of growth) were still up by more than 60% on the previous year. And, even now, only a tiny fraction of the world's population is online.

All the evidence suggests that the B2C market leaders will end up

being the main gainers from the dot.com shakeout. For example, Amazon has already profited from the financial woes of eToys, which saw its sales plunge this Christmas on doubts about its viability. So too has Yahoo!, which this week saw another competitor, Disney's Go.com, shut down and send more advertising its way. And eBay is taking advantage of the slump in valuations to buy overseas clones. Its purchase of South Korea's Internet Auction Company last month, for example, helped push its international expansion.



A breed apart?

For these three, though, being successful is not enough. The dot.com leaders were born to be a new sort of company, a profit-making machine the likes of which the world had never seen. Their valuations before the crash assumed all that and more. Even today, at savagely depressed prices, their market capitalisations still reflect a belief that they are a breed apart, destined to grow much faster, make much more money, and expand into more businesses than their bricks-and-mortar counterparts.

Yahoo!, for instance, is still worth as much as America's top three listed newspaper companies combined; eBay is priced at ten times the value of Sotheby's; while the price-to-sales ratio of Amazon is twice that of Wal-Mart. Headlines may give the impression that Internet mania is dead, but the markets are still holding out great hopes for these three at least.

How far are they justified? At first glance, quite a lot. All three have succeeded in their original aims. Amazon has proved that an "e-tailer" can, in certain categories at least, knock the plaster off bricks-and-mortar competition: aside from the obvious advantage for shoppers of a nearly unlimited selection of books, music and video, its fast-growing electronics business turns its inventory two to three times as fast as offline electronics retailers, who have often struggled for just that reason. Yahoo! invented the portal and used the web to create a media giant that originates almost no content of its own, while eBay has shown that the Internet can be a perfect means to create an efficient market where none existed before. By the same token, all have proved, to some extent, that the Internet does allow businesses to be run with unprecedented efficiency.

Take the auctioneer eBay, the best example of this. Its magic comes from being nothing more than an intermediary: in essence, eBay is no more than some software running unattended on a web server. All the work is done by the customers—buyers and sellers. Sellers pay the company for the privilege of setting up their own auctions; buyers use eBay's software to place bids. When the auction is over, the seller and the winning bidder negotiate payment and shipping between them; eBay never touches the goods. For this matchmaking service, for which its marginal cost is essentially nothing, eBay takes between 7% and 18% of the sale price.

Compare that with Sotheby's, a traditional auctioneer. Dependent on a limited number of staff and

auction rooms, Sotheby's can handle only a limited number of auctions. eBay, in contrast, has almost unlimited capacity, which confers powerful advantages of scale. Since sellers seek liquidity, the biggest market has the advantage; it tends to attract more participants, who attract more still, creating a virtuous circle. Because eBay was the first and grew quickly enough in its early days, it was able to steamroller the local competition in every international market that it entered. It even seems to have successfully fought off the auction-house efforts of Yahoo! and Amazon, both of which started with bigger pools of customers than eBay.

The results are dramatic. In its most recent quarter (to December 2000), eBay's gross margins were more than 80% and rising. Despite the Nasdaq tumbles, eBay's revenues nearly doubled last year. Even its operating margins, despite rapid international expansion and heavy investment in technology and marketing, were 20%, bringing in profits of $25m in the quarter. Over time, analysts expect eBay's operating margins to average around 35% on revenue growth of 40-50% a year. Quite a cash cow.

Yahoo! is less perfectly virtual. Like eBay, most of the content that fills its site comes from outside. But in many cases, Yahoo! cannot simply let its software robotically run the show; it needs people to organise information, sell advertising, and negotiate deals with partners. Yet Yahoo! also benefits greatly from economies of scale. Larger audiences attract not just more advertisers, but more and better content and service providers, most of which either give Yahoo! their wares for free or pay the company to give them to its users as a way to promote the providers' underlying paid services. This leads to another virtuous circle, as better content attracts even more users. That is why the three busiest consumer websites, Yahoo!, AOL and MSN, have increased their lead over the rest of the pack during the past two years.

Back to the jungle

With a huge audience come opportunities to extend their B2C business further. Because Yahoo! offers so much content and so many services, users spend a growing amount of online time within its virtual walls (now more than an hour and a half per day). This is increasingly giving Yahoo! the ability to track their behaviour and preferences, allowing it to target advertising to them. Such targeted ads can sell for 30-60 times as much as the untargeted variety, creating a powerful engine for future earnings that Yahoo! is only just beginning to stoke.

Partly because it is the only one still losing money, Amazon is the most controversial of the three. Its early business models envisaged the most ephemeral sort of virtual company, one that used automated software to offer shoppers an inventory of books far bigger than any bricks-and-mortar retailer could stock, to take orders over the Internet, to charge them to credit cards, and to pass the order along to book distributors or publishers, all with almost no human intervention, at least not from an Amazon employee. As its founder, Jeff Bezos puts it, "We're short on real-estate and long on technology. Technology gets cheaper each year and real estate gets more expensive." It's a near-perfect model: the revenues of a retailer with the overheads of an automated teller machine.

In reality, Amazon was never quite as virtual as that. Even from the beginning, it had to warehouse books itself as it became clear that distributors did not want to deal in orders of one, and that shipping costs required it to consolidate orders into a single package. Today, it has seven huge distribution centres in America, and one each in Britain, France, Germany and Japan.

But even with forklifts and loading docks, Amazon shares some of the "network economy" benefits enjoyed by Yahoo! and eBay. Like the other two, much of the "content" on Amazon's site costs it next to nothing. It is either put there by its users, in the form of customer reviews, or it comes from publishers and manufacturers.

Amazon's main advantages, however, stand out best in comparison to its bricks-and-mortar competitors. Thanks to its centralised warehouses and virtual shelves, it can keep just a few units of each product in

stock, rather than having to keep a few of each product at every store. Moreover, because its packing and handling costs tend to be about the same regardless of the nature of the product, it can hope to make more money by moving to higher-value products. Margins in the consumer-electronics business, for instance, are notoriously low because of inventory and depreciation costs. Amazon, with a fast-moving centralised inventory and relatively fixed handling costs, can make such a business far more attractive.

Mr Bezos famously built his company on the philosophy of “Get Big Fast”, which meant that as long as the capital markets would tolerate it, Amazon’s credo was: full speed ahead, and damn the profits. So far it has raised $2 billion, and lost, to date, about the same amount. The Nasdaq slump ended Amazon’s free meal at the equity trough, and the corresponding drying up of the junk-bond market closed that route too. No wonder that analysts last year began to worry that the company would run out of money before it would break even.

This week’s announcement of a target date for profits, along with a cash hoard still of $1.1 billion, at least twice what it needs to get through the year, should put those fears to rest. But there are other reasons to question Amazon’s model. For one, the company has had more than its fair share of failures. Many of the members of the “Amazon Commerce Network”—smaller dot.coms in which Amazon took a stake and which it promoted on its site—have gone bust, often taking Amazon’s investment with them: this week it wrote off $339m for such paper losses.

Furthermore, much of the supply-chain efficiency that Amazon’s business model depends upon is held hostage by the pace at which its partners, from suppliers to transportation companies, upgrade their own systems to complement Amazon’s. This last problem, which has been frustrating for Amazon in America, is far worse in its international markets.

The need for change

The other two B2C giants are facing problems of their own. For all that it is trying to diversify its revenues, Yahoo! is still too dependent on dot.com advertising. And no company is more threatened by AOL’s recent merger with Time Warner, the only competitor on the horizon that can potentially trump Yahoo! in reach and breadth. Finally, as a content aggregator rather than a creator, Yahoo! is always vulnerable to the whims of its partners.

The main problem with eBay is that it has been slow to expand beyond the business that it started six years ago. Despite last year’s acquisition of Half.com, its expansion into used cars, and the spread of small merchants on to the site, it is still thought of mostly as a market on which to trade collectables. Meanwhile, fraud remains a common complaint.

Had these companies not adapted their business models, they would now deserve the scorn that is cast on their sector. But they have changed, and they are now changing even more. Yahoo! is almost unrecognisable, having evolved from a simple directory to a fully fledged media and commerce powerhouse that has become a web leader in everything from financial information to personal ads. Amazon has expanded from books to consumer electronics, to cars and mobile phones. eBay started auctioning knick-knacks found in attics, but is now increasingly a virtual storefront for small dealers selling goods of all sorts.

Ironically, the three companies, which started out so different, are now competing in many areas. All three have auctions, and all three host storefronts for other firms. All sell advertising—banners for Yahoo!; paid-for product placements in the case of Amazon and eBay. All are increasingly selling private-label versions of their service to companies, for a fee. And all have moved into financial services, of one sort or another.

A common theme in all of these moves is an attempt to make more of their vast audiences—Yahoo! has 236m registered users; Amazon and eBay have 29m and 23m customers, respectively. Intentionally or not, all have become community sites, with a challenge to "monetise eyeballs" (as the regrettable industry parlance has it) in more clever ways than just by selling banner ads.

Yet this broadening also suggests limits to their potential, since it is bringing them up against stronger competition. It is one thing to take market share from fading dot.com minnows or bricks-and-mortar firms, but quite another for Yahoo! to try to topple eBay from its auction throne. There are, to be sure, plenty of scraps left around each firm's core business, and all three are right to try and get them when possible. But they will probably never be huge contributors to the bottom line for any of them.

As they get bigger, the three are also inevitably becoming linked more with the traditional companies that they now rival. After the merger of AOL and Time Warner, many suggested that Yahoo! should have done a similar deal (perhaps with Disney or Viacom) when it had the chance; it may yet do so, but under far less attractive terms. Amazon has now linked with Toys "R" Us and is acting as its online toy-sales arm. And eBay has hooked up with AutoTrader, a used-car dealer. Increasingly, even the strongest dot.coms need such bricks-and-mortar alliances to grow and prosper. As the sector matures, its leaders are becoming less pure Internet firms.

Lest they gradually become valued more like their bricks-and-mortar partners, the B2C champions must find a model that allows them to take the next step in their expansion as efficiently as they took the first. The model all three have settled on is, curiously, similar to that being adopted by Microsoft. The software giant's .NET effort, like that of competitors such as Oracle, aims to shift its products increasingly from one-time sales to subscriptions—subscriptions for services hosted by "application service providers", including itself.

Amazon, Yahoo! and eBay have software at their core. They innovate with software; they buy software companies to gain exclusive use of their technologies; and as much as possible they use software instead of people to run their businesses. Until recently, all have been willing essentially to give use of this software away, choosing to make their money from the transactions or traffic that the software enables. But to maintain hypergrowth, they need to find new revenue streams, and a natural one is to offer their prized technology to other companies for their own use.

All three are already moving in this direction. Yahoo! is offering private-label portals for internal use by big companies for a fee. eBay is planning to host storefronts for small and medium-sized merchants, much like Amazon's zShops. Amazon, though, has gone furthest, with its deal with Toys "R" Us, which pays to sell its inventory through Amazon's software and warehouses. Amazon expects to sign similar deals with other companies whose products are, like toys, either too seasonal to justify a year-round site, or too narrow to stand on their own. Dozens of smaller dot.coms, from Ask Jeeves to Respond.com, are also selling private-label versions of their technologies to big companies, largely to move away from over-dependence on consumer revenues.

The future of the dot.com leaders is becoming a lot clearer. At worst, Yahoo! or Amazon will eventually find themselves in some AOL-like merger with a big bricks-and-mortar firm. But they can now just as easily survive on their own. Their future may not be quite what was once envisaged, but it will be no less remarkable for that.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Adopt brace position

Feb 1st 2001
From The Economist print edition

America's economy seems to be approaching the ground rather quickly

AP/Reuters

Old economy and new, steered by Pilot Greenspan

Get article background

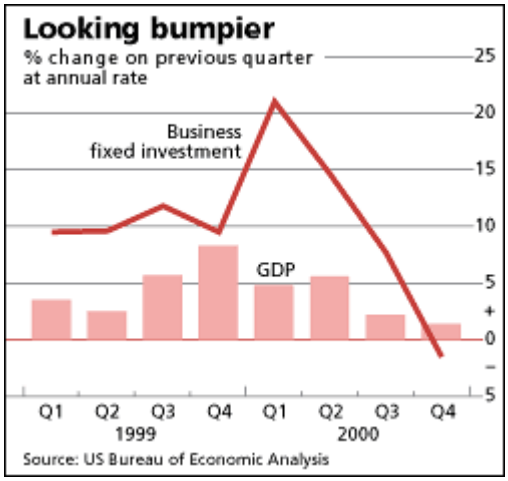
CAUTION has apparently gone out of fashion with central bankers—or at least with Alan Greenspan, chairman of America's Federal Reserve. On January 31st the Fed slashed its federal funds rate by half a point, to 5.5%. This comes on top of an unexpected half-point reduction in interest rates on January 3rd—outside the normal schedule of open-market committee meetings. The full-point chop is the biggest one-month cut since 1984.

The rate cut on January 3rd was probably the Fed's attempt to provide liquidity to credit markets. They were showing dangerous signs of closing to all but the most blue-chip creditors. This threatened to create severe financing problems for many firms that needed to raise fresh cash, and perhaps to push sound businesses under. If liquidity was Mr Greenspan's aim, he seems largely to have succeeded. Markets for corporate debt have revived over the past month.

Now, however, there are clear signs that the economy is slowing abruptly. In the fourth quarter of last year, GDP grew by an annual rate of only 1.4% (see chart), well below the 2.1% that forecasters on average expected, and the slowest quarterly pace for over five years. In the first half of 2000 the economy expanded at an annual rate of more than 5%. On January 25th Mr Greenspan testified to Congress that the economy seemed to be slowing to "close to zero" for the first quarter of this year. The data published since then suggest it may even have turned negative.

The main private-sector spenders in the economy have moved from heady optimism to deepening pessimism. Hunkering down is the strategy of the moment. Corporate boards have decided to cut

their investment plans. In the fourth quarter of last year, business fixed-investment actually declined, the first fall for nine years. Spending on equipment and software fell at an annualised rate of 4.7%.



This slump happened at a time when careless talk of recession was barely a murmur, and mostly reflected decisions taken even earlier. It seems certain that investment in the first quarter of this year, which will be based more on outright assumptions of a recession, will be weaker still. Moreover, inventories again rose sharply in the fourth quarter. Companies will not want to pile up unsold goods, so they are likely to cut production further in this quarter simply to run down existing stocks—all this before they take falling demand into account.

Last week Mr Greenspan commented that "the critical issue" is whether the economy's slowdown is "enough to breach the fabric of consumer confidence". Until now the fabric has been unbreached. Consumer spending grew by a respectable 2.9% (at an annual rate) in the fourth quarter. Remarkably, new home sales rose by 13.4% in December, to the second highest monthly total on record. However, the Conference Board's index of consumer confidence plunged in January to its lowest for four years. Its decline during the past four months has been the sharpest since the early 1990s.

How much further might interest rates fall? The money markets seem to anticipate cuts of another three-quarters of a point by June. Core consumer-price inflation remains fairly tame, and the rate of increase in the employment-cost index slowed in the fourth quarter. This will make it easier for the Fed to justify further rate cuts.

Will this be enough to prevent a "recession"? That depends partly on what you mean by the term. The official definition is two consecutive quarters of declining GDP. But that is somewhat unsatisfactory. Suppose that GDP fell sharply in the first and third quarters of this year, but rose slightly in the second and fourth quarters. By the official definition, a recession would have been avoided, yet output would have ended the year lower than it started. Some economists reckon, therefore, that a year-on-year fall in output is a better gauge of recession.

Refining the R-word

Even this reasoning is flawed. Suppose that country A has a long-term sustainable growth rate of 1.5% and that GDP falls by 0.5%. That is a recession. Country B, by contrast, has a sustainable growth rate of 4%—which happens to be the OECD's estimate for America. If growth now slows to 1%, country B will officially avoid recession even though growth will have fallen by more, relative to trend, than in country A, and unemployment will therefore rise more sharply.

So the issue of whether America experiences a recession or a sharp slowdown is a bit arbitrary. If the economy avoids an outright contraction, but if growth slows to only 1-2% from 5% last year, this will feel like a recession to many. Unemployment will rise, and some sectors, notably manufacturing, will see an absolute fall in output.

Because of the long lags with which monetary policy affects demand, it may be too late for the Fed to prevent a downturn. Yet investors seem to believe that the Fed possesses such powers. Since the cut in interest rates on January 3rd, stockmarkets have rallied. Nasdaq has gained more than 20%, whilst the broader Wilshire 5000 index is up by 8%. Many are betting on a V-shaped recovery from the current pause, as interest-rate cuts work their magic: a sharp fall in output growth, followed by a strong recovery.

The financial markets expect Mr Greenspan to repeat his trick of 1998, when interest-rate cuts saved America from a downturn in the aftermath of Russia's debt default and the collapse of Long Term Capital Management. This time is different. In 1998 there was a loss of confidence in the wake of a financial crisis, but in contrast to today the domestic economy remained strong. And today's higher levels of consumer and corporate debt may mean that lower interest rates will not be so good at encouraging new borrowing and spending.

In a thoughtful speech in Switzerland this week, Larry Summers, America's outgoing treasury secretary, argued that the country's current economic cycle is different from previous post-war cycles. Typically, excess demand causes inflation to take off, which forces the Fed to raise interest rates, which pushes the economy into recession. This expansion, he argued, has been more like pre-war cycles, or like that in Japan in the late 1980s: that is, driven by credit. The absence of rising inflation has allowed the expansion to go on for longer, but at the cost of a greater accumulation of debt. Others have pointed to the similarity to credit and asset-price booms in Britain and Sweden in the late 1980s. The unwinding of excesses was accompanied by severe recession.

One reason to hope that America's financial imbalances can be unwound less painfully is that its underlying productivity growth today appears to be considerably faster than it was in those countries then. So whilst output may indeed fall sharply relative to trend, it will not need to fall so much in absolute terms in order to unwind the financial imbalances.

Still, the extent of the increase in America's productivity growth has yet to be put to the test. Some of the increase in productivity growth during the late 1990s was almost certainly thanks to a booming economy. How much growth will survive the coming downturn? The recent fall in capital spending is not good news for future productivity growth, since a large chunk of the increase in labour productivity came from massive investment in information technology.

So much hinges on the exact size of America's long-term rate of productivity growth. This will determine the likely depth of any recession; the extent of budget surpluses and hence the room for tax cuts; the future growth in profits, and hence the fair value of the stockmarket; and the rate of increase in unit labour costs and hence the scope for the Fed to cut interest rates. Mr Greenspan has long put faith in America's new economy. He had better be right.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Bank of Japan

Coming out of denial

Feb 1st 2001 | TOKYO
From The Economist print edition

CHARM, humour and a sunny disposition are not thought to be essential requirements for central bankers. Yet at the Bank of Japan, these qualities have been indispensible. In the three years since the Bank was given its political independence, bashing it has become an international sport. Mostly, officials have parried onslaughts of advice with good humour. But still Japan has a sputtering economy, desperately weak share prices and a new whiff of panic in the money markets. The persistent criticism of the Bank's interest-rate hike last August, the first in ten years, is increasingly hard to laugh off.

Recent days have brought dark hints of a fresh banking crisis. The weakest of the big banks face particular scrutiny. The falling share prices of the likes of Daiwa Bank and Yasuda Trust suggest serious worries about their solvency. Rattled by the stockmarket's fall, and frustrated by the Bank of Japan's insistence that the economy is still healthy, ill-tempered politicians were this week demanding that the Bank do more to help. All that the Bank's governor, Masaru Hayami, is prepared to say is that he will study new ways of supplying short-term funds to the banks.

Behind the scenes, though, the central bank is preparing for the possibility of having to cut rates back to zero, or even of trying something bolder. One obvious sign of this is the way the Bank has been lowering its own expectations about the economy. Its most recent judgment, published on January 22nd, strikes a far more cautious note than the upbeat views the Bank peddled last year. Exports, it says, are weakening, growth in industrial production is slowing, and inventories in some key industries are beginning to rise. In sum, the gradual recovery continues, "but the pace is slowing."

Less obvious, though perhaps more important, is the way the Bank's view about falling prices is changing. Although high-street prices were clearly still falling at the time of last summer's rate rise, the Bank declared the causes of deflation to be a happy mixture of structural changes in the economy, the yen's earlier appreciation, and falling unit-labour costs as companies put surplus capacity back to work.

Today, with prices falling faster than ever, the Bank seems much less relaxed. Deflation, Mr Hayami now admits, is also the result of weak demand. Doing something about it, though, is rather delicate, given how recently the Bank raised rates. Under political attack, the Bank's struggle for credibility is not helped by its wobbly views about prices. So far, therefore, officials have been diverting attention from falling prices by directing eyes towards the potential shock from America. Its slowing economy and weak stockmarkets might provide face-saving cover should policy be reversed.

Thoughts of a return to a zero interest-rate policy (Zirp, to the connoisseurs) are meanwhile encouraging speculation that the Bank will at last explore more radical ways to reflate: by printing money, for instance. Until recently, the notion has been flatly ruled out by Bank officials. Intriguingly, attitudes now seem to be shifting. Officials used to argue that printing money simply would not work. Now, they suggest that the idea—as framed by economists, at least—is either unworldly or, more pointedly, politically dishonest.

There are two ways in which the Bank could print money. It could buy dollars with newly created yen, or it could buy back large quantities of government bonds. Both methods would have the effect of forcing the yen lower. One concern is that a sharply weakening yen could combine in harmful ways with worries about Japan's financial system, consequently prompting foreign investors to sell shares in a rush.

Since Japanese banks must, under international rules, adjust their capital base for unrealised gains (or losses) in their huge share portfolios, a weak stockmarket is of particular concern to policymakers. It might even explain Mr Hayami's otherwise puzzling support in January for a stronger yen. More broadly, although economists seem to agree that a weak yen is desirable, there is no such consensus among politicians, in Japan or abroad. America has recently hinted that it might tolerate a weaker yen, but has said nothing explicit and is unlikely to do so if its own economy heads into recession. Japan's trading partners in Asia might also be alarmed that an aggressive policy to weaken the yen would make exports too pricey.

Buying government bonds raises a second set of problems. The idea is to work on people's expectations of future inflation by greatly expanding a supply of money whose growth is currently slowing. Yet buying bonds would incur massive costs. Pumping money growth up from 2% to just 5% a year, for instance, would mean annual bond purchases of ¥15 trillion ($129 billion). The Bank would be left with a pile of government bonds. Yet if the Bank did succeed in raising people's expectations about inflation, bond prices by extension would collapse. This would leave the Bank with a gaping hole in its balance sheet, which the government would have to fill from somewhere, presumably from taxpayers. This week the political heavyweights from the ruling Liberal Democratic Party were telling the central bank to buy bonds. A more useful discussion might have begun by asking a more awkward question: who's to foot the bill?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Steal industry

Feb 1st 2001 | NEW YORK
From The Economist print edition

ON THE face of it, the bankruptcy of a steelmaker, LTV, is another sad story about a once-dominant company in a once-mighty industry. Though its $2 billion of debts are not trivial, the case would have got little attention but for a nuance in LTV's bankruptcy filing in an Ohio court that has alarmed some of the world's biggest lenders.

The crux of the issue is whether a desperate plea for money that the court is hearing this week will undermine one of the great acts of financial alchemy in recent years: to wit, cheap financing for bad creditors. Reams of papers have been filed by two of LTV's main creditors, Chase Manhattan Bank (now merged with J.P. Morgan) and Abbey National, a British bank. An adverse ruling from the court would be a blow to plenty of other banks.

Behind the litigation are LTV's efforts in the early 1990s to fund a capital-intensive business as cheaply as an earlier bankruptcy in 1986 and difficult operating conditions would allow. The solution, which has been applied by too many other American companies to count, was to create a couple of special-purpose vehicles—essentially, independent legal entities. These were supposedly insulated from the risk of their parent going bankrupt. The first of these vehicles contained LTV's receivables (what it was owed by customers), and the second its inventory (piles of steel). LTV would inject assets into these entities, paid for by attractively priced asset-backed loans. The size of these loan facilities last year, according to Standard & Poor's, was about $650m, or equivalent to slightly more than half of LTV's total long-term debt.

When LTV filed for bankruptcy on December 29th, everything seemed normal (if normality is an empty till and 18,000 employees wondering whether they have a job). Alarms started ringing at the commercial banks when it became clear that LTV was going to argue in court that it could use as it liked (ie, not necessarily to repay interest and principal on the asset-backed loans) the money got from receivables—since, it claimed, the original transfer of the receivables to the special-purpose vehicles was not a sale but a "disguised finance transaction". The alarms rang louder when the judge appeared to be sympathetic to LTV's arguments. The case continues. If the judge rules in LTV's favour, there will be intense pain and embarrassment at many banks.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bananas

Fruit suit

Feb 1st 2001
From The Economist print edition

IN 1999 Miss Chiquita, mascot of the eponymous banana trader, had a makeover. Gone was the old red and yellow dress; in came a flowing gown in blue and gold, colours of the European Union's flag. Despite this ingratiating attire, Miss Chiquita could not improve her company's share of the European market. Now, after seven years battling a quota system that has been rejected time and again by the World Trade Organisation (WTO), Chiquita is embarking on another uphill struggle: suing the European Commission for damages.

AP

Setting out for Strasbourg

It is not just Chiquita's financial future that is at stake. This is a big test for the WTO's Dispute Settlement Body, which condemned Europe's banana-import regime, and authorised America and Ecuador to retaliate with punitive tariffs. The body's rulings, however, were meant only to encourage compliance with WTO rules. It is not clear that they have the force of law in Europe.

In 1997 another suit was brought against the commission, by the European subsidiary of Dole, America's other banana giant, and an Italian firm. They claimed compensation for the import licences the commission's regime had taken from them, arguing that they would lose market share irreparably while the commission got around to reforming its banana-import rules. But the European Court of Justice dismissed the case, arguing that any loss was reparable. It did not deny, though, that damage might occur.

Now Chiquita is seeking to prove that damage did indeed occur, and cost it no less than *euro*564m ($525m) in lost profits. Proving the damage should be fairly easy. Chiquita's market share fell from more than 40% to less than 20% between 1992 and 1993, when the new quotas came in. This cost Chiquita a lot of money.

But who was responsible? America, Europe and their banana-producing partners in Latin America, Africa, the Caribbean and the Pacific have been squabbling for years. Arguably they all, and not just the commission, bear some of the blame for Chiquita's troubles. But that is not the same as legal culpability. Companies cannot usually sue governments for making laws that happen to hurt their business.

The key to Chiquita's case is that Europe's Council of Ministers ordered the commission to institute a WTO-compliant import regime in 1998, before the WTO's deadline of January 1st, 1999. The company claims that the commission disobeyed the order and broke the law. Chiquita is not the only company suing over bananas. A dozen small European importers have started actions in the European court, and six companies in other industries have sued the commission for provoking retaliatory tariffs from America.

Steven Warshaw, Chiquita's chief operating officer, says that the company decided to file suit last month, when America's negotiations with Europe broke off. But it is noticeable that the lawsuit came just nine days after the company announced it had to restructure $862m-worth of debt. Chiquita's share price has fallen by nine-tenths in the past three years, and it managed to make a profit only twice since 1992. But its plight can hardly all be blamed on Europe's trade policies. Hurricane Mitch destroyed much of its Honduran and Guatemalan operations in 1998, and climbing interest rates made it ever harder to finance debt. Even Mr Warshaw argues that "the straw that broke the camel's back" was a sixth year of weakening European currencies.

But he also says that what pushed Chiquita to the brink of ruin was the commission's announcement in 1992 that it would protect its banana market to help the exports of Europe's former colonies. Future import quotas were to be allocated according to market shares in that year, so naturally both American and European companies flooded the market with bananas. As prices tumbled, Chiquita lost $284m that year; its revenues were cut from $4.6 billion to $2.7 billion. They have never fully recovered. Given that Chiquita used to make profits of about $100m a year before the current quota regime was imposed, its estimate of $525m for losses in 1999 and 2000 looks high but not outrageous.

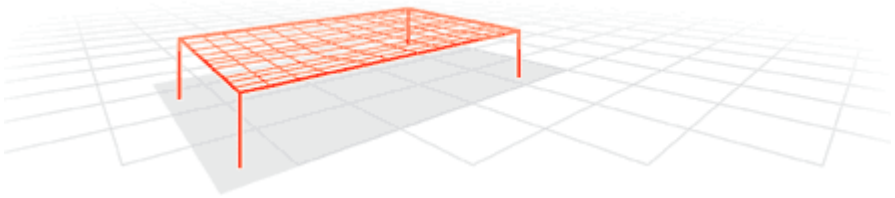
Chiquita's losses also owe something to its own flawed strategy. Unlike Dole, it concentrated on trying to circumvent Europe's quotas, rather than on diversifying. So it finds itself worryingly dependent on a belated European adherence to WTO rules, or, failing that, on an unpredictable lawsuit.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Debating the minimum wage

Feb 1st 2001
From The Economist print edition



When governments put a regulatory floor under wages, does that destroy jobs? An update on a long-running dispute

THE story so far. For many years economists took it for granted that a compulsory minimum wage, set much above the floor that emerges in an unregulated labour market, would reduce employment. Young or unskilled workers would be unable to find work at the mandatory minimum: the bottom of the demand curve would be chopped off. Of course, if the minimum were so low as to impinge on none of the wage bargains actually being struck, there would be no effect. The higher the minimum wage, once it starts to bind, the bigger the loss of jobs.

The possibility that a minimum wage would not reduce employment, and might even increase it, was acknowledged. This could happen through market failure of some kind. Suppose, for instance, employers have monopsony power as buyers of labour: they will curb their demand, to drive wages lower. A minimum wage could remedy this, raising wages and expanding employment at the same time. But in a normal, competitive labour market, this should not arise.

Then along came David Card and Alan Krueger, two of America's most distinguished labour economists. They looked at the effect of a big increase in New Jersey's minimum wage, in 1992, on employment in the local fast-food industry—and they discovered that it pushed employment up. This attracted wide attention. The claim featured prominently in their widely cited book "Myth and Measurement". It influenced the debate over raising the minimum wage in the United States; and when Britain introduced a minimum wage of its own, their findings were cited again.

Next came a paper by David Neumark and William Wascher. They went back to the New Jersey case, using different and (they argued) better data and methods. They found that the rise in the minimum wage had reduced employment, after all, much as one might have expected.

For those who follow this intriguing quarrel, there are new developments to report. In the current issue of the *American Economic Review*, after the protracted delay normally associated with that esteemed journal, both sides publish revised and polished versions of their earlier positions. They have reviewed each other's work and made adjustments. The difference has narrowed, but remains. In essence, Messrs Card and Krueger defend the validity of their earlier work; in essence, Messrs Neumark and Wascher still think it wrong. But the range of their respective estimates has shifted—enough so that they now touch, just, in the middle. Messrs Card and Krueger no longer insist that the higher minimum wage pushed employment up; they have settled for saying that (contrary to the standard model) it "probably had no effect". Messrs Neumark and Wascher have lightened the emphasis on falling employment, emphasising instead their conviction that (contrary to what Messrs Card and Krueger had first claimed) employment did not go up.

Second inning

Just as the discussion seemed about to fizzle out, two new contributions have arrived. A note by Thomas Michl suggests a different compromise: maybe both of the earlier positions were correct. After examining the data already collected, Mr Michl suggests the following possibility: that the minimum-wage increase left the overall number of workers employed roughly the same, but reduced their hours. (Not implausible, given that most workers in the fast-food business are part-timers.) Then it would be true that the wage rise reduced the demand for (hours of) labour, as the standard model says; but at the same time it could also be true, as advocates of the minimum wage say, that the incomes of the affected workers went up, thanks to the combination of fewer hours at work and the higher wage rate. In which case the policy could be judged a success, even though it had "reduced employment".

Still there? Hold on, because yet another new idea, much more hostile to minimum wages, has now been put forward. Peter Tulip, an economist at the Federal Reserve, asks a different but very interesting question: could a high minimum wage raise the equilibrium economy-wide rate of unemployment (or NAIRU)?

This directs attention away from the "affected workers" in fast-food restaurants or wherever, the focus of the earlier research, to the labour market as a whole. Suppose a high minimum wage, by pressing on the structure of pay differentials, raises wage growth and hence inflation across the economy. Higher unemployment would then be necessary to stop inflation accelerating. Employment might not fall among "affected workers", but it would have to fall in some other part of the economy. The damage would be subtler, but no less real.

Mr Tulip finds, on crunching his numbers, that this is what happens. So strong is this indirect effect, on his calculations, that the gradual fall in the relative value of America's minimum wage over the past 20 years is capable of explaining 1.5 percentage points of the fall in the country's equilibrium rate of unemployment over the same period. In Mr Tulip's view, a good part of the difference between the low equilibrium rate of unemployment in America (and Britain) and the much higher rates in continental Europe can be attributed to Europe's higher minimum wages.

That should stir things up. It will be interesting to see how other specialists respond. You will probably be able to read about it in the *American Economic Review* in, say, three or four years' time.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Thailand's banks

Still hurting

Feb 1st 2001 | BANGKOK
From The Economist print edition

BETTER late than never: that is the hope of Thaksin Shinawatra, who is about to take over as Thailand's prime minister after campaigning on a new bailout plan for banks. When Asian debts went bad in 1997-98, the governments of South Korea, Malaysia and Indonesia set up national "asset-management companies" to buy bad loans from their commercial banks. This has failed in Indonesia—along with every other promised reform in the country—but it has worked out reasonably well in the other two places. Now, more than three years after the Thai baht collapsed, the country that started the region's crisis is hoping to join in.

Mr Thaksin makes a simple case. Although the government took over a few banks early on, it left the remaining private banks to sort out problems on their own. A new bankruptcy court, combined with new foreclosure laws, was supposed to encourage Thai debtors to bargain in good faith. Many firms, however, have continued to defy their creditors, who often cannot agree among themselves on how to proceed. Ignoring accounting fudges, non-performing loans remain cripplingly high, at 1.7 trillion baht ($39 billion). Over the past six months, fresh bad loans have kept pace with old ones restructured or rehabilitated. Something needs to be done, but what? The proponents of a bailout argue that if the government combined all the bad debts into single heap—even if it outsourced their management—then some of the conflicts that have divided creditors to date could be avoided. A centralised government asset-manager, Mr Thaksin argues, would help to get credit flowing again.

Not everyone agrees. Richard Henderson, at Kim Eng Securities in Bangkok, says that it would be better to press on with legal reforms that would make it harder for debtors to play games. By abandoning this process halfway through, he warns, there is a risk that Thailand will fail to establish a system in which borrowers pay their debts.

Yet Mr Thaksin seems hell-bent. If he does pursue a centralised approach, what is the best way to go about it? One of the most difficult issues is how to value the loans. Supavud Saicheua, an economist at Merrill Lynch in Bangkok, suggests a way to solve this. Roughly half of the book value of the country's bad loans is backed by collateral. Private-sector banks have now fully provisioned for the other half. Mr Supavud thus suggests that the banks should transfer all of their provisioned capital into the national asset manager, as equity, along with the collateral that backs their secured loans. This would protect the government against losses on the unsecured loans, and allow the banks to regain whatever the government collects.

Some of the debts secured by collateral will be worthless. Mr Supavud argues that this is not a problem. The government could pay for the secured debts by giving the banks bonds for that 50% chunk of their loans—with, say, four-fifths of the chunk guaranteed by the government and the rest contingent upon the loans getting paid. That way, even if the government failed miserably, the banks would be guaranteed to recoup 40% of their loan value—not far off the 40-50% recovery rate that analysts in Thailand think feasible. The government's losses would also be limited. That should ease the concerns over Thailand's public-sector debts, which stand at 55% of GDP.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

A pocketful of posies

Feb 1st 2001
From The Economist print edition

PA

Ellwood the Ambitious

HOW often can Abbey National spurn its suitor? For the third time, Lloyds TSB smiled its sweetest smile and came wooing, bringing an offer in cash and shares worth nearly £20 billion ($30 billion) and ambitious plans for a future together. The marriage would have created Britain's second largest banking group. Abbey did not consent. The terms were still "inadequate and uncertain". Abbey is rather keen on the smaller Bank of Scotland.

The uncertainty is likely to go on for a while. Lloyds TSB is waiting to see whether its bid will be referred to Britain's Competition Commission by the Office of Fair Trading (OFT). A decision is not expected until February 23rd, and is hard to predict. Abbey shareholders will not think hard about Lloyds' bid until the OFT has ruled.

If there were an objection to Lloyds TSB's merger plans, it would arise over the combined bank's market share in current (checking) accounts. According to Merrill Lynch, which is advising Lloyds TSB, the two banks would have a national market share of 27%; others say almost one-third. Either way, it passes the 25% threshold which normally triggers a competition investigation. Lloyds TSB argues that what counts is the share of new current accounts the combined banks would win. By that measurement, the figure would fall to 23%—just under the threshold.

The threshold may not be the crucial issue. After all, National Westminster Bank and the Royal Bank of Scotland were allowed to join forces despite having over a quarter of the market for small and medium-sized businesses in England and Scotland. More worrying for Lloyds is the political climate. The bid, by a bank notorious as a slasher of employees and branches, comes as a general election approaches. Although Lloyds has promised not to shut any of Abbey's branches for two years, the closures would surely start soon afterwards. Lloyds expects eventually to wring nearly £1 billion of annual savings and synergies from the merger.

Lloyds TSB insists that merging with Abbey National will create "a stronger platform for overseas expansion". That is the bank's cherished ambition, but is unlikely to be furthered by this deal. Grappling with the merger will leave Lloyds' chief executive, Peter Ellwood, far less time to chase potential European partners. Indeed, the pursuit of a bank back home appears to be an admission by Lloyds that its quest for a deal in Europe has failed. And if the OFT scuppers Mr Ellwood's ambitions in Britain too, he may come to regret the day he ever called on Abbey National.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

European stock exchanges

Taking one's Easdaq

Feb 1st 2001
From The Economist print edition

IN THE race to create a global market for equities, it is hardly a winning spurt; more a jostling for advantage on the starting blocks. But news that America's Nasdaq is in talks about taking control of Easdaq, a pan-European exchange based in Brussels, suggests again how fierce that race might become.

The talks, on which neither exchange will comment and which may yet come to nothing, are in many ways an admission of failure. Easdaq was launched in 1996 with Nasdaq as one of its shareholders. Its stated target was to attract 500 companies to list there within a year. It aimed to do for Europe what Nasdaq had done for America: provide an attractive alternative market for shares in technology and "growth" companies. Yet Easdaq currently has only 62 listed companies. Following a recent slump in the volume of trading, some of them are threatening to take their listings elsewhere. There have been no newcomers for months. Easdaq does, in addition, list more than 100 companies whose shares are also listed on Nasdaq or other exchanges, but so far trading in most shares around the world has predominantly taken place on their home exchanges.

Steffen Schubert, Easdaq's chief executive, made a plaintive confession in a press interview last November: "We are open to any kind of interest from the outside world, be it a merger, be it whatever." Any deal depends on Knight Trading, an American securities firm that owns 19% of Easdaq and is the biggest market-maker on Nasdaq.

Easdaq's failure has two root causes. The pan-European market did not grow as fast as expected, even after the advent of the single currency two years ago. Investors have been held back by cumbersome and costly cross-border clearing and settlement systems. Second, national exchanges, partly fired by Nasdaq's success, competed fiercely for listings and pushed their own "growth markets", such as Neuer Markt in Frankfurt, Le Nouveau Marché in Paris, Nuovo Mercato in Italy and London's techMARK.

For the same reasons, Nasdaq itself has failed to make much headway in Europe. Nasdaq Europe, launched in November 1999 in alliance with some (at the time) high-flying stars of the tech boom, such as Japan's Softbank, has gone nowhere. And Nasdaq's plan last year for a joint venture with a new exchange that was to be formed by a merger of the London and Frankfurt exchanges, to be called iX, also fell through when London's shareholders rejected the iX deal as insufficiently lucrative.

Nevertheless, Nasdaq has clearly not abandoned its efforts to expand into Europe, and indeed around the world. Its chairman, Frank Zarb, has long argued that "in a few years, trading securities will be digital, global and accessible 24 hours a day", and that Nasdaq wants to be the market where it happens first. Its parent, the National Association of Securities Dealers, has just completed a private placement of shares that has raised $326m for Nasdaq, so it has some money to spend. Diversifying away from America may seem more urgent in the light of the economic slowdown there.

Yet control of Easdaq is unlikely to meet Nasdaq's needs in Europe. To woo new listings and foster heavy trading volumes may still require a big, eye-catching tie-up. Even if the Easdaq deal goes through, Clara Furse, the new boss of the London Stock Exchange, may find Nasdaq a persistent suitor.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Morgan Stanley

Man overboard

Feb 1st 2001 | NEW YORK
From The Economist print edition

The power struggle at Morgan Stanley has come to an end. Its problems certainly have not

EPA

I'm putting his card on the table

TO FIND the losing party in a banking merger of supposed "equals", look no further than the name of the merged entity: the loser secures that, at least. Consider Citigroup, J.P. Morgan and Bank of America. On January 29th, as if to emphasise the point, Morgan Stanley dropped the Dean Witter part, which it picked up in 1997 when the waspish investment bank tied the knot with a middle-market brokerage. The rebranding comes swiftly after the resignation of the merged bank's president, John Mack, the model of a Morgan Stanley man. It leaves the chief executive, Philip Purcell, a one-time head of Dean Witter, fully in charge.

Ever since the merger, it had been widely believed that as part of the deal Mr Purcell promised to give up his post after a number of years, to make way for Mr Mack. Whatever the case, Mr Mack decided that the time had come to demand the top job or leave before he was too old to get one elsewhere (Wall Street rumours suggest he may soon join Citigroup as heir-apparent to Sandy Weill). Mr Purcell's edge in a dogged power struggle became ever clearer in the past year. Yet before the merger, Morgan Stanley was by far the more prestigious firm, and it had a reputation as a deal-maker.

The key to Mr Purcell's success has been his cultivation of the board, which backed him last week over Mr Mack's demands for the succession promise to be honoured. Of Morgan's outside directors, five were previously with Dean Witter, and only two with Morgan Stanley.

Mr Purcell, in contrast to Mr Mack, keeps out of the limelight. Yet news of the coup raced down Wall Street, where Mr Mack is respected as a leader and superb salesman, even if not always liked; his nickname, perhaps inevitably, is "Mack the Knife". The coup was widely interpreted as a blow to Morgan Stanley's fortunes. Investment bankers at Merrill Lynch and Goldman Sachs reacted with glee.

To put a good spin on things, Mr Purcell held an old-fashioned, behind-closed-doors session with analysts on January 31st—which some Wall Streeters reckon breached new Securities and Exchange Commission rules that demand broad-based disclosure. One of the many concerns raised was that valued employees might bolt. Richard DeMartini, the head of Morgan Stanley's international private-client group, jumped ship for Bank of America the day after Mr Mack's departure. Another was that Mr Purcell's background as a consultant for McKinsey, followed by a stint in retail brokerage, might lay bare a weakness in investment banking, where Mr Mack had responsibility. Mr Purcell's leadership style is described by a former colleague as "autocratic and bureaucratic", hardly the qualities upon which the old Morgan Stanley rose to prominence.

Yet it is a different firm these days, a juggernaut with more than 55,000 employees providing all sorts of financial products. The Discover Card, a hugely successful credit card, was developed by Mr Purcell himself. Besides, the merged entity has been far more successful than anyone dared predict. Boardroom squabbles in the aftermath of giant mergers elsewhere (as at Citigroup) only highlight the success.

Whatever the personal frictions, Messrs Mack and Purcell mostly agreed about strategy, though Mr Mack was recently keener on merging with a commercial bank. He wanted Morgan Stanley to have the strength to fight off challenges from Citi and J.P. Morgan by being able to “lend” its balance sheet to big corporate clients. Mr Purcell says he agreed with Mr Mack on this, but prefers Morgan Stanley to strengthen its balance sheet by building up its own banking operations rather than merging. The integration of Morgan Stanley with Dean Witter was made relatively easy because of the lack of overlap between the two firms. Where integration was needed was in the executive suite.

Mr Purcell has his work cut out continuing the success. The firm’s equity business has come under growing criticism. Last year Morgan Stanley did a fine job raising money for clients. It underwrote some 50 initial public offerings worth $13.2 billion, according to Thomson Financial Securities Data. Yet these deals mostly earned next to nothing for investors, a record far worse than that of Goldman Sachs and Merrill Lynch. Customers have a good memory for such details.

Besides, equity underwriting and mergers and acquisitions are both in the doldrums and may be there for some time. Mr Purcell is keen to see the firm’s retail-brokerage and asset-management businesses grow overseas, especially in Europe. Yet the retail mutual funds developed by Mr Purcell’s Dean Witter, the cornerstone of its asset-management business, have produced lacklustre returns. During the most recent one-, five- and ten-year periods, according to a fund-tracker, Morningstar, the funds’ performance was below the industry average. Selling underperformance in a bear market is no easy task.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

German finance

Three into one will go

Feb 1st 2001 | FRANKFURT
From The Economist print edition

ANOTHER scoop for *Bild*, Germany's biggest-selling daily: last weekend Hans Eichel, the country's finance minister, apparently slipped a disc doing the housework. The surprising thing is that Mr Eichel would have time to push the vacuum around. In recent months he has been busy with important tax reforms and calibrating the tax breaks intended to encourage Germans to contribute to their own pensions. On January 25th he was at it again, setting out plans to reform the regulation of Germany's financial markets and restructure the Bundesbank.

Of these, the overhaul of regulation is the more significant. At present, Germany has separate regulators, in separate cities, for banks (Berlin), insurers (Bonn) and securities houses (Frankfurt). Mr Eichel wants to merge the three, to create something akin to Britain's Financial Services Authority. The reason, he says, is that it is no longer possible to draw clear lines between the different industries. Financial institutions are competing increasingly in the same markets, but at the same time they are co-operating to sell each other's products.

The trend, the finance minister and the country's top bankers all think, is firmly towards *Allfinanz*: a system of financial conglomerates operating across functional boundaries. That may be true, but there is still a long way to go. Germany has so far produced no financial conglomerates such as America's Citigroup, with its powerful investment-banking and insurance operations, or even Zurich's Credit Suisse, which bought Winterthur, a Swiss insurer, in 1997.

However, something is missing from Mr Eichel's reorganisation. Although a national securities-trading regulator watches over the behaviour of securities houses—keeping an eye out for insider dealing, for example—*Länder* (ie, state) governments are in charge of the country's eight bourses. Thus the Frankfurt stock exchange reports to the government of Hesse, the Stuttgart exchange to Baden-Württemberg, and so on. The finance ministry is known to want to move the regulation of exchanges to a national level. Mr Eichel seems to have let a valuable opportunity for reform slip.

His reasons may be political. The *Länder* defend their rights jealously, and Mr Eichel will need their support to get his proposals through parliament, whose upper house consists of representatives of state governments. He may not want to annoy the states more than he already has. Consolidating the regulators and eventually closing two offices is sure to mean job losses somewhere. As it is, the *Länder* are up in arms at his plans for the Bundesbank.

Time was when the words "Bundesbank" and "mighty" were always spoken in the same breath. No longer. Monetary policy is still set in Frankfurt, but these days at the European Central Bank, not at the Bundesbank. Mr Eichel has now decided how a long debate about the bank's future should be concluded. To the dismay of state politicians, he thinks it should be run on a centralised basis. That way, he believes, it will speak with a single, and stronger, voice in European councils. It will also need a good deal fewer than its 16,000 current employees. The Bundesbank's management board will shrink from 15 members to six, with no state representatives.

Mr Eichel said that he thought the head of the Bundesbank, Ernst Welteke, would be pleased with the outcome. Really? Although Mr Welteke wanted a centralised system, he also wanted the bank to be responsible for financial-market supervision. The new regulator, however, will be independent of the central bank, which has made its disagreement plain. Quite a week for Mr Eichel. As well as putting his own back out, he has put a lot of other people's backs up.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Puncturing AIDS

Feb 1st 2001
From The Economist print edition

A new partnership between industry, charity and governments is pushing AIDS vaccines into clinical trials

Get article background

VACCINES have long been the poor relations of the medical world. At the moment, global spending on research for a vaccine against the human immunodeficiency virus (HIV), which causes AIDS, amounts to $300m. That is a tenth of the sum spent on buying drugs to treat the disease in America and Europe. At first sight, this might seem surprising. Some 36m people are infected with HIV—a potentially huge market for whoever cracks the vaccine problem first. But most of those people are in Africa, and Africans have no money. Add to that the fact that HIV is hard to protect against because the very immune cells that vaccines are priming to resist infection are the ones disabled by the virus. Perhaps the lack of interest is not so surprising, after all.

This is the challenge that Seth Berkley, head of the International AIDS Vaccine Initiative (IAVI), took on when he started the organisation in 1996. From a small beginning, IAVI has grown to include 60 experts from industry, academia and the public. It has an annual budget of $24m and, so far, it has raised $230m of capital. That is 40% of what it wants over the next five years to reach its goal of pushing a dozen different vaccines through early development, and getting two or three of them into big clinical trials.

Many people in both the public and private sectors doubt whether an outfit like IAVI has the resources to succeed where well-heeled drug companies have feared to tread. But a fresh vote of confidence has just come from the Gates Foundation, which has topped up its earlier grants to the Initiative with a new $100m donation. And on January 27th, IAVI announced further proof that it means business: the start of clinical trials in Kenya to test its first AIDS vaccine.

The trials just given the green light by the Kenyan government are for small numbers of healthy volunteers to be injected with this vaccine, to test its safety and its ability to stimulate the immune system (see article). Similar trials have already started in Britain, where the vaccine was developed, and early results show no complications. It will take at least a year for the data from the Kenyan tests to roll in, but then decisions can be made as to whether the vaccine should be put through its paces in larger trials to test its actual effectiveness.

Going my way?

While this vaccine's efficacy remains to be seen, the Kenyan experiment has already broken new ground. In particular, IAVI has shown that it is possible to link disparate groups of people—scientists at Oxford University and the University of Nairobi, and manufacturers in Britain and Germany—to move a vaccine from concept to product in record time. One way it has hastened the pace is by recruiting product managers from industry to co-ordinate the various vaccine projects it funds, and by keeping a close eye

on the development process, much to the annoyance of certain parties that are used to charities taking a more hands-off approach to projects.

Another novelty is that the vaccine is not some rich-country product tweaked around the edges to accommodate the tropical poor. From the beginning, it was intended to fight the A strain of HIV that is common in Kenya rather than the B strain which circulates in the West. Moreover, the clinical trials are designed and conducted by local doctors. This builds up home-grown scientific knowledge, and also helps to avoid some of the ethical issues that testing rich-world drugs on poor populations brings in its wake.

Lastly, one of IAVI's conditions for financial support is that any vaccine that emerges must be priced within the reach of poor countries. If a developer reneges on this obligation, IAVI can exercise its contractual rights over the product's patent to find a third party who is willing to make the vaccine and sell it more cheaply.

It is not only academic centres that have been attracted by IAVI's proposition. A few biotechnology companies, such as Targeted Genetics in Seattle, with bright ideas but not much cash, have entered into partnerships. One of these—Alphavax in Durham, North Carolina—was kick-started with money and manpower from IAVI, which thus acted as a sort of "social" venture-capital fund. Alphavax, along with its partners in South Africa, hopes to start human safety trials of its proposed vaccine later this year. Similar ventures with other biotechnology firms and their local partners are in the works for India and China.

Besides giving vaccine developers a helping hand, IAVI has been trying to mobilise financial and political support from the world's richest countries. This move from science to advocacy is controversial both within the organisation and outside it, but Dr Berkley makes no apologies. Getting governments to recognise the importance of an AIDS vaccine is as critical as getting the science right in the laboratory. IAVI's efforts at lobbying politicians and bankers are starting to pay off. In 2000, Bill Clinton promised millions more dollars to fund AIDS vaccine research. The European Commission is working on a draft proposal to offer financial incentives, such as R&D tax credits, for vaccine work. And the World Bank has set up a new $1 billion concessional loan programme to help countries tackle infectious disease, including AIDS.

More money, and more commitment, are certainly needed—particularly from large drug companies. Vaccine development is dominated by four big firms: Aventis, Merck, GlaxoSmithKline and American Home Products. All have a few projects on HIV vaccines under way, some more advanced than others (see article). But none has quite the range that IAVI has assembled, and Aventis, at least, has expressed an interest in partnerships with the Initiative when the time comes to do large clinical trials in developing countries.

Some other companies are a little warier. Despite IAVI's assurances to the contrary, they worry about the organisation's stance on intellectual property, fearful that they might lose their patents to, say, an Indian vaccine manufacturer that would churn out enough of their expensive new product to steal markets in the industrialised world that really can afford to pay more. They fret about IAVI's demands for "accessible" vaccine prices, and thus whether they can recoup their investment. And they wonder whether politicians, particularly in America, will start asking hard questions if firms charge significantly less for an AIDS vaccine in Tanzania than they do in Tallahassee.

All these issues are still to be resolved. IAVI's way is not the only way to get an AIDS vaccine to market, but it is certainly one of the most promising. As a result, the Initiative's future is important, not just for AIDS-vaccine research, but for the whole field of creating drugs for poor countries. A range of new public-private partnerships to tackle malaria, tuberculosis and other developing-world afflictions has sprung up in IAVI's wake. Few are quite as multi-faceted as IAVI, which works on the scientific, financial and political fronts all at once, but IAVI's success would give them all a boost. Nothing is certain. As Jane Rowley, one of IAVI's directors points out, the consortium is very much a work in progress. But so is the onslaught of AIDS. Anything that helps the vaccine makers catch up is welcome.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Arsenic and old brakes

Feb 1st 2001
From The Economist print edition

INTRODUCED plants are often regarded as a nuisance by those whose land they invade. But previously unwilling hosts of the Chinese brake fern may come to delight in their good luck if research published in this week's *Nature* can be exploited successfully. That is because Lena Ma of the University of Florida and her colleagues have shown that the fern has a near-insatiable appetite for arsenic. It could thus be used to help clean up spoil heaps contaminated with this unpleasant element.

Dr Ma's interest was piqued when she found brake fern growing near an old wood-preservation site in central Florida. The site was contaminated with copper arsenate, a fairly noxious substance, but the fern was apparently thriving. Analysing fronds from the site showed that they had accumulated as much as five grams of arsenic for each kilogram of the fern's foliage. And when, prompted by this discovery, the researchers started growing brake fern in laboratory conditions, they were able to quadruple this figure.

In theory, a contaminated site could have much of its arsenic sucked out of it over the course of a few years by planting it with Chinese brake. And, since brake is one of the few ferns that prefer sunny conditions to dark and moist ones, it could be planted on a wide variety of such sites. Green, then, in more ways than one.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Earthquakes in India

Worse to come?

Feb 1st 2001
From The Economist print edition

TENS of thousands are feared dead after the Bhuj earthquake in the Indian state of Gujarat. Horrifyingly, seismologists think that for India the worst is probably yet to come. Roger Bilham, a geologist at the University of Colorado at Boulder, believes that more than 60% of the Himalayan region to the north of the country is overdue for an earthquake of magnitude 8 or more. Such a quake would release an amount of energy equivalent to a nuclear explosion of more than 150 megatonnes (the Bhuj quake was of magnitude 7.5, or about 30 megatonnes). A Himalayan earthquake of this severity would threaten built-up areas in the Ganges valley, including Delhi (population, 15m) and many other cities with a million or more people living in them.

Earthquakes happen when the rocky plates that make up the earth's crust shift suddenly. These plates are in constant, albeit very slow, motion. As a result, huge pressures build up in them over the years, and this accumulated strain is often released as an earthquake.

The Bhuj earthquake was unusual because the strain had built up in the middle of a plate. (Most earthquakes occur along plate boundaries.) But as the people of Gujarat found, such "intraplate" earthquakes can be devastating. They also tend to recur. In 1819, for example, the fault system that caused the Bhuj earthquake produced an earthquake estimated to have been of magnitude 7.7 in the nearby Rann of Kutch, a salt marsh.

That quake, however, killed fewer than 2,000 people. Today, the population of the region is 10-20 times greater. According to Dr Bilham, if the death toll in Bhuj exceeds 19,500—as now seems likely—it will have been the most lethal earthquake in the history of India.

Despite that, most powerful Indian earthquakes tend to occur towards the north of the subcontinent (see map). That is because for tens of millions of years the greatest collision of all between the earth's plates

has been happening there. Where the Indian and Eurasian plates meet, the violence of their impact has squeezed and crumpled the rocks between them to throw up the towering peaks of the Himalayas and the plateau of Tibet. It is here that the next big Indian earthquake is most likely to happen, although the entire subcontinent is riddled with faults on the verge of failure, having been under pressure for so long.

How much that worries the authorities—or, at least, how much they are willing to act on their worries—is a different question. Dr Bilham and Vinod Gaur, from the Centre for Mathematical Modelling and Computer Simulation in Bangalore, writing late last year in *Current Science*, said that until recently Indian seismological research has neglected a technique known as geodesy, which measures the strains accumulating in, and distorting the surfaces of, plates. The pattern of those distortions cannot be used to predict earthquakes, but it can be used to work out which areas are most at risk from them.

In the past decade, geodesy has been revolutionised by global-positioning-system (GPS) technology, a satellite-based method of locating points on the earth's surface precisely. GPS–based geodesy has now begun in several parts of India, and Dr Bilham and Dr Gaur think that the wider availability of this technique could reduce uncertainties about the stresses and strains within the Indian plate by a factor of four. But they warn that its application is being hampered by the military requirement to maintain the secrecy of raw, precise, positional information. The zones of maximum earthquake risk are near India's borders. The government does not want to make a present of accurate maps to its enemies.

Such concerns, while understandable, can be taken too far. According to Dr Bilham and Dr Gaur, they have been taken much too far—and Gujarat is a case in point. Fastidious documentation of the area is already available from a survey carried out in the late 19th century; nothing seismology adds could possibly help an enemy. Besides, more civilian deaths have occurred in the area from earthquakes than in recent wars. Dr Bilham says that the Indian government has even forbidden him to use a gravity meter in the region (such a meter measures whether a point is moving away from the centre of the earth, and therefore indicates a build up of strain that might be released as an earthquake). That seems absurd. National security is terribly important. But not all threats to it are military.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

AIDS vaccines on trial

Feb 1st 2001
From The Economist print edition

Get article background

THE latest vaccine from the International AIDS Vaccine Initiative, IAVI, which is starting its clinical trials in Kenya (see article), is not the only shot in the locker. Since 1987, 30 potential AIDS vaccines have moved out of the laboratory and into testing on more than 6,000 volunteers, mainly in America and Thailand. Most of these trials have been early-stage efforts, designed to show that the products are safe and that they do actually stimulate the immune system in ways that might protect against infection by the human immunodeficiency virus (HIV), which causes the disease.

Proving that a vaccine works in the rough-and-tumble world of unprotected sex and careless intravenous drug-use requires large trials, including thousands of people who are at risk of contracting HIV. So far, only one produced by VaxGen, an American biotechnology company, has made it to this late stage of testing. VaxGen's candidate contains gp120, a sucker-like protein from the envelope that surrounds each HIV particle. The company mass-produces this protein through genetic engineering.

The hope is that VaxGen's product will prompt the body's immune system to produce antibodies that will bind to the virus, rendering it defunct. One version of the vaccine, which contains gp120 from the B strain of HIV, the type most common in the West, began large-scale clinical trials in America in 1998. These trials are due to report their initial results later this year. A second set of trials, on gp120 from both the B strain and the E strain, which is most common in Asia and which varies slightly from the B strain, started in 2,500 intravenous drug users in Thailand in 1999, with preliminary results expected in 2002.

Even if VaxGen's vaccine succeeds in raising antibodies in its recipients, this may not be enough of an immune response to protect people against HIV. Laboratory studies, and close observation of some lucky individuals who seem more resistant to HIV than others, suggest that stimulating another component of the body's immune system—so-called killer T-cells—is the key to keeping the virus in check.

Kicking killer T-cells into action with a vaccine is much harder than stimulating the production of antibodies, because of the complex cellular interactions that it takes to get them going. One way is to deliver the bit of the virus you want the killer cells to respond to using another virus which doesn't cause human disease—a sort of vaccine Trojan horse.

Aventis, a Franco-German pharmaceutical firm, is using canarypox virus to do just that. As the name suggests, the germ is bad for birds but harmless in humans. Aventis has engineered canarypox virus to carry the gene encoding gp120 and other HIV genes into recipients, and injected it into small numbers of volunteers in America and France, followed by ordinary gp120. Preliminary results show that this approach prompts enough of a response among killer T-cells for the company, along with America's National Institutes of Health, to press forward with large-scale efficacy trials in the United States and Thailand.

A third possibility is a "DNA vaccine", which delivers the parts of HIV thought necessary to stimulate a protective immunity as naked genetic material. This is the method that IAVI is now testing in Kenya, although its DNA vaccine will be followed by a Trojan-horse virus to boost the killer-cell response.

And there are other ideas. Some people are testing different, and they hope more effective, viral Trojan horses. Others are tinkering with bacteria as HIV carriers, or trying to soup up existing vaccine systems with other molecules known to boost the immune system.

Whatever the method, the barriers to getting from bright idea to large-scale clinical trials remain formidable, according to Jose Esparza, co-ordinator of the WHO/UNAIDSHIV vaccine initiative. The science of AIDS vaccines is still uncertain. What works brilliantly in animal models of HIV infection does

not necessarily stimulate the human immune system.

Even if it does, experts are still debating what sort of immune response is the most desirable. On top of that, running field trials is a costly, time-consuming business, made trickier by the technical, political and ethical difficulties of doing such work in poor countries—countries that may be unable to afford the fruits of the research, if those should be a successful vaccine. So it is hardly surprising that the number of vaccines moving through the pipeline to large-scale trials has been small, and their progress sluggish.

Researchers are hopeful, however, that the sheer variety of approaches in the works will yield a winner. That would be a boost to those fighting HIV in the field, and a positive signal to large pharmaceutical firms which may otherwise be wary of getting into AIDS vaccines. But as Dr Esparza points out, even failure, at this early stage, would be progress of a sort, as well as a valuable lesson for future efforts.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

It's mourning in America

Feb 1st 2001
From The Economist print edition

A memorable first novel confirms that the American civil war still has a tight grip on the nation's psyche

GOB'S GRIEF
By Chris Adrian

Broadway Books; 384 pages; $24.95

Buy it at Amazon.com

THE American civil war has inspired some of the nation's most widely read fiction: "Uncle Tom's Cabin", which virtually forecast the conflict; "The Red Badge of Courage", which still appears on many college reading lists; "Gone With the Wind"; and, more recently, Charles Frazier's runaway success, "Cold Mountain". Each, in its way, reflects the time in which it was written. Yet, what these books have in common, in addition to the setting, is the triumph of the narrative—the story as a journey towards redemption. Now comes a new (first) novel from a young short-story writer, which deals with the same experience but gives it an utterly different treatment; a work, unlike any that has come before it, that raises its characters' imaginative life to the same plane as their life stories.

The grief in Chris Adrian's title is for a bugle boy, Tomo, killed at the start of the war; beyond him, for the 620,000 dead of that war, for the dead of all wars, for death itself. Gob, the boy's brother, thinks he can build a machine to bring Tomo back and abolish death. Gradually, Gob's machine takes over his New York mansion on Fifth Avenue, a crazy assemblage of levers and gears, of iron, glass and crystal, of bones and blood. First it resembles an angel, or perhaps a lamb, then a person, and finally an edifice, crowned with a model of the local cemetery's gatehouse, the whole contraption dappled with the shadows of dead soldiers thrown by a light shining through "wings" of plate-glass photographic negatives. Think of Dante crossed with Heath Robinson or Rube Goldberg, and you will get an idea of Mr Adrian's strange, metaphysical yet concrete imagination.

A lamb, an angel, a person, blood? Religious allegory, as a literary device, suggests something formal. Reading "Gob's Grief" is more like listening to a familiar theme broken up, transposed and scattered through a set of elaborate variations. The Catholic cathedral in New York is going up a block away from Gob's house, we learn. Gob's machine is a different kind of cathedral. Its bones have been stolen from the medical museum, which is housed in the shell of the theatre in which Abraham Lincoln was shot. Its wiring includes a piece from the Atlantic cable, which Gob removes in an escapade with his friend Walt Whitman, from the model room of the Patent Office in Washington. Whitman's presence is vital, for it was his engagement with the devastation of the war that transformed him both as a poet and as a person. The blood of the machine comes from Whitman himself, fevered and grieving for the soldiers he befriended and whom he comforted with apples, reading to them, and writing to their families when they died.

Gob's machine, in other words, hums with two great myths, America and Christianity. At the same time, the country is reconstructing itself to the music of political marches, public meetings, spiritual charlatanism ("humbugging", Gob calls it) and modern engineering. As the Brooklyn Bridge rises from its foundations some 70 feet below the riverbed, Gob's mother, Victoria Woodhull (whose real-life story is about to be made into a film starring Nicole Kidman), campaigns for women's votes and prepares to stand for president. She has the 120th psalm sewn into the sleeves of her dress. "It's not easy, is it, Mr Whitman," she says, "trying to improve the world?"

The difference between Mrs Woodhull's music and Gob's turns on the idea of grief. Gob's mother has bought the whole life-after-death package, minus grief. Gob, by contrast, is interested only in the mourners: Whitman, accompanied by the ghost of a soldier-*camarada*, Hank; Will Fie, a war

photographer's assistant, also followed by spirits, who has built himself a glass-house out of the negative plates that eventually turn up in Gob's machine; and Maci Trufant, the woman Gob marries, who is haunted by her dead brother. These people aren't even believers. Though her brother tells her, "if only you grieved more and better, we would be with you now", Maci calls Gob's machine a "pile of stuff"; Will Fie ends up breaking the thing; even Whitman is afraid. Only a weird child called Pickie Beecher, who drops, unexplained, out of Gob's machine, seems to understand.

But Gob is pressing, especially with Whitman. He calls him the "battery" needed to start the engine, and makes him put on Abraham Lincoln's hat (stolen, along with the Atlantic cable), which he himself has been wearing for inspiration. As Whitman steps into the machine, the hat is found to be "decorated with a corona of silver spikes, each of which is plugged into a hole in the crystal wall of the gatehouse". At that instant, he becomes a modern Christ, wearing a crown whose thorns have grown out of the sorrows of Lincoln's wartime presidency. Solemn and unsubtle though that may sound, the effect in reading is not that at all. Mr Adrian has a genius for conjuring heaven and hell while simultaneously complicating and distracting his reader's attention. He sometimes runs a scene several times over, many pages apart, as though filming from different angles and distances. The "battery" scene, for example, is "shot" three times, but the spiked hat doesn't always appear, or only fleetingly. Whitman may be one of Gob's mystic spare parts, but the real point about him is very simple—he was motivated in his war-hospital visits by love, as is revealed in the scribble that Maci finds on the back of one of his windier poems: "John Watson, (bed 29), get some apples; Llewellyn Woodin (bed 14), sore throat, wants some candy; bed 14 wants an orange."

Equally, Mr Adrian can impart mystery to the most unlikely character. Whitman, the grey-bearded poet-prophet, lends himself readily perhaps; but Maci Trufant is a tough nut. In spite of a rebellious left hand, which takes down her brother's messages, she is sceptical and inclined to scoff. Yet gradually, in scattered hints—glimpses of her through ferns, a frozen apple, Gob's abandoned conservatory (a withered Eden?) in which she breaks a tree—there begins to be a whiff of Eve about her, and then of Mary, Eve's redemption. One hot August, Gob conceives the idea of making, among the machine-parts on the ground floor of his house, an ice-rink for her, over which we later see the two of them dimly drifting and colliding. Will Fie is flummoxed. He can't see what Maci has to do with Gob's purposes. But even as he doubts, he is thinking of the "rarefied chemical processes" by which ice is made, "of the precipitation of a gaseous soul where an airy unexisting thing would be made solid and real". Liquid ammonia is in his mind, but the reader can't help being given a spiritual jump, as it were. It is Mr Adrian's peculiar achievement that actually to name it—or indeed any of the other symbolic moments— would be to miss the rare strangeness of this remarkable book.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Pencil power

Feb 1st 2001
From The Economist print edition

JOE SACCO is the heir to Robert Crumb and Art Spiegelman; a throwback cartoonist/reporter who uses comics and caricature to tell true-life tales, thus reaching out to an audience that might never otherwise be roused by politics, anarchy or foreign wars. “Palestine”, his searing comic-strip account of the conflict in Israel, was widely praised when it came out in 1996. His new book, “Safe Area Gorazde” (Fantagraphics 2000, $28.95) is even stronger. It tells the story of a small town on the Drina river in eastern Bosnia. Designated as a “safe area” by the UN, Gorazde was instead the target of repeated Serb attacks during the Bosnian war. With the help of Edin, a maths teacher turned soldier, Mr Sacco met many Muslim refugees from towns along the Drina, all of them with horrific stories to tell. Mixing together these personal accounts with his pencil-drawn pop imagery, he skilfully explores the roots of the violence, the rise of Serbian nationalism and the ethnic killings that followed. As a fusion of comics and reportage, the sum of “Safe Area Gorazde” is greater than its parts.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

American politics

The metropolitan provincial

Feb 1st 2001
From The Economist print edition

GOVERNOR AL SMITH of New York, the Democrat buried in an electoral near-landslide by Herbert Hoover in 1928, famously said: “I would sooner be a lamp post on Park Row [in lower Manhattan] than the governor of California.” He regarded Ninth Avenue as the Far West; the Jersey meadows as beyond the frontier. So his biographer, Robert Slayton, has a job on his hands when he tries to persuade us that Smith’s religion was a far greater handicap than his New York provincialism in that pre-Depression presidential election.

EMPIRE STATESMAN: THE RISE AND REDEMPTION OF AL SMITH
By Robert A. Slayton

Free Press; 496 pages; $30

Buy it at
Amazon.com
Amazon.co.uk

Hoover, who ran as a compassionate conservative, was probably destined to win anyway in the economic and stockmarket boom of 1928, but Smith’s Catholicism certainly did not improve his chances against the Republican. The Ku Klux Klan, then still a force in the land, regarded uppity Catholics and Jews as an even greater threat to white Protestant supremacy than blacks, who were “kept in their place” in the South by Jim Crow laws and elsewhere by Jim Crow practices. The KKK’s leaders and other bigots played on the fears of the ignorant about foreign immigrants to vilify Smith as a “Pope-loving governor of Jew York” intent on handing the keys of the White House over to the Vatican.

Nor was Smith’s opposition to Prohibition a help to him on the hustings. Immigrants, especially the Catholic Irish, were stereotyped as aggressive drunks. Tall stories about the Democratic candidate for the presidency drinking between four and eight cocktails and highballs every day were widely accepted.

Yet, it is hard to believe that Smith would have done much better against Hoover if he had been a Presbyterian. It was his Noow Yawkese that sunk him. Many otherwise loyal Democratic voters, particularly in the South, who in 1932 were comfortable voting for Roosevelt, an upstate patrician, looked askance in 1928 at a candidate who claimed that under his governship life had got “betta” for a “poison”, particularly one engaged in public “soivice”. A critic wrote that when Al Smith sang “The Sidewalks of New York”, his theme song, “the bullfrogs had met their master”.

In rejecting Smith, American voters concluded, rightly, that his outlook was as narrow as his accent was broad. Other nationally unelectable New York heavyweights, such as Bella Abzug and Ed Koch, have at least taken a tactical interest in international affairs, especially the concerns of the so-called three Is: Israel, Ireland and Italy. Smith showed virtually no interest in what happened outside his state, let alone outside the United States. An excellent governor of New York, he would have made a poor president.

Mr Slayton has nonetheless written a marvellous book. Its thesis is unconvincing but it captures the feel, smell, sounds and pretensions of New York and New Yorkers as successfully as Tom Wolfe’s novel “The Bonfire of the Vanities”. The supporting cast is especially good, and not just Irish toughs like “Big Tim” Sullivan and Florry, his larger relative, who gave rivals of Tammany Hall politicians “a dental assistance” by knocking out a few loose teeth. Mr Slayton brings to life the three Jewish associates who did so much to make Smith’s legacy justly famous: Robert Moses the builder, Joseph Proskauer the tactician and Belle Moskowitz the confidante and wise adviser, who practised the wiles of feminine, rather than feminist, politics.

As a bonus the book also contains a biography of the Empire State Building. Smith became the front man for the skyscraper in 1932 when he again failed to win the Democratic nomination. It had so few tenants during the Depression that New Yorkers dubbed it the Empty State Building. Smith strove to remain as ebullient as ever. Not for nothing was he known as “the happy warrior”.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The staff of life

Feb 1st 2001
From The Economist print edition

The most popular management books today are all about people, and how firms can hang on to the talented ones

CHIEF executives say their biggest concern today is "the competition for talent"; how to retain the people who create the most value for their company. Bruce Tulgan, a consultant who built a business on his analysis of Generation X, Americans born after the death of John F. Kennedy, argues that you let economic man take over. You encourage your workers to act like "free agents" whom you pay only for performance. "The free agent", says Mr Tulgan, "is the hero of the new economy." Such workers contract in and out of tasks on a short-term basis, living in the so-called "Hollywood model" of the workplace. Here, you're either a star or you're down and out in Beverly Hills.

WINNING THE TALENT WARS
By Bruce Tulgan

Norton; 228 pages; $26.95.
Nicholas Brealey; £18 (April 2001)

Buy it at
Amazon.com
Amazon.co.uk

One problem with free agents, though, is that they're not easy to control. And if everyone's a free agent, where does that leave the corporation? Virtually non-existent? Mr Tulgan resorts to the idea that the company should be no more than a "hard core" of full-time workers whose talent is for managing fluid pools of free agents. Much as do-no-wrong Jack Welch might want General Electric to be like that (and the book professes that the GE boss tells people, "At the end of the week we cut your paycheck...we start afresh on Monday."), the giant American corporation still has 340,000 full-time employees.

NIGEL NICHOLSON'S answer to the question of how to retain talent is to appeal to social man rather than economic man. He is an evolutionary psychologist who believes that we are all more or less unreconstructed hunter-gatherers. As such, we are "hard-wired" (a favourite, recurring phrase) to behave in certain pre-conditioned ways, more or less until the end of genetic time. The wise company goes with this flow, which means it organises itself in packs of around 150—because that's how the diaspora from Olduvai Gorge operated, claims Mr Nicholson, with scant supporting evidence—and it finds itself a charismatic leader, because that's what made us sapient.

EXECUTIVE INSTINCT. By Nigel Nicholson. Published in Britain as MANAGING THE HUMAN ANIMAL

Texere; £18.99
Crown; 352 pages; $25.

Buy it at
Amazon.com
Amazon.co.uk
Amazon.com
Amazon.co.uk

Even if you go along with its evolutionary psychology, this is a disappointing book. It is plagued with typographical errors, bad grammar and (in the so-called British edition) American spelling. More important, it repeatedly resorts to the management cliché of single-digit subsets: there are "seven deadly syndromes" and the "four ages of organising", and there is at least one "eight-point plan". But it may be that Mr Nicholson cannot help but write like this because of his Olduvai inheritance. "We are hard-wired to think in categorical terms," he says, "to love lists."

HERE'S a book with an interesting idea: mongrels make you rich. The more that nations and corporations embrace "hybrids", people who are born into (or who have grown into) more than one culture, the more successful they will be. To support his case the author points to the decline of monocultures like Germany and Japan, and to the success of hybrids like America and (well, yes) Ireland.

THE GLOBAL ME
By G. Pascal Zachary

PublicAffairs; 336 pages; $26.
Nicholas Brealey; £20

Successful multinational corporations “are hybrid hot-houses”, says Mr Zachary, no longer run like a single nation, by people carrying the same passport. McDonald’s in Belgrade, he says, assumed a Serbian mantle during the NATO raids in the spring of 1999, and stayed open (and busy) throughout the hostilities. The message? Local communities have nothing to fear from the spread of multinationals: they just need to see themselves as gaining a culture, not losing one.

Buy it at
Amazon.com
Amazon.co.uk

Nice business if you can get it, and it makes a good story too. But the history of cross-border mergers is thick with tales of cultural misunderstandings that prove the undoing of not unreasonable business goals.

THIS claims to be “a leadership fable”, and will undoubtedly be one of several books hoping to emulate the genre’s *succès fou*: “Who Moved My Cheese?”, a mousy business fable, published in 1998, that was still Amazon.com’s fifth bestselling book last year, beaten only by the four Harry Potter titles.

OBSESSIONS OF AN EXTRAORDINARY EXECUTIVE
By Patrick Lencioni

Jossey-Bass; 183 pages; $20 and £14.50

Buy it at
Amazon.com
Amazon.co.uk

“Obsessions” tells the tale of two rival CEOs with contrasting business styles: one has a secret formula for leadership which means that his company enjoys “organisational health”; the other is a mean-minded workaholic consumed with jealousy for his rival’s winning ways. Enter “Jamie”, a virus who infects the healthy organisation by being taken on accidentally as the head of human resources. How Jamie is eventually rejected by some powerful antibodies already on the organisation’s payroll, and how he then slopes off to the unhealthy rival bearing the secret formula fills all of 136 pages. (“Cheese” stretches to 94.)

The formula, withheld till the end, makes the book a “Howdunnit?” rather than a “Whodunnit?” But along the way there are plenty of hints: healthy organisations, for example, have employees who are “humble, hungry and smart”. They argue without acrimony, are devoted to the company’s values, and are the sort of people who are comfortable on “Pier 39” (don’t ask). Whoever finds talent like that should probably hard-wire it to the floor.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Sundance screenings

Feb 1st 2001 | PARK CITY, UTAH
From The Economist print edition

NOW that the buying frenzy of the mid-1990s has quietened down, the Sundance film festival in Utah is a mid-winter chance to enjoy new independent talent without expecting to find a “Blair Witch Project” in every can. Ryan Gosling impressed audiences in his role as a Jewish neo-Nazi in “The Believer”, which won the grand jury prize. But this year’s gems were not necessarily among the winners. Richard Linklater’s “Waking Life” uses the latest animation techniques painted over real images to explore contemporary theories of life, the universe and everything. This outstanding film rejuvenates cinema. Several foreign films also stood out. “La Espalda del Mundo” (The Back of the World) by Javier Corcuera, melancholic but beautifully shot, dwells on the sufferings of the world. The director has an eye for strong visual and contextual contrast, whether an 11-year-old Peruvian quarrier in the bustle of Lima, an exiled Kurd in Stockholm, or Death Row inmates and wardens in Texas. Better still was “Sangue Vivo” (Life Blood) by Edoardo Winspeare, about a southern Italian smuggling to Albania, set to beguiling folk music.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Literary history

Nemesis

Feb 1st 2001
From The Economist print edition

IN 1920, H.G.Wells published a panoramic work entitled “The Outline of History”. Not a historian originally, but a scientist, Wells had completed this two-volume work in under 18 months to the amazement and admiration of his friends, fans and colleagues. Highly successful, it added greatly to his literary celebrity. Wells acknowledged, on the title page, the help of four people all eminent in their fields, Ernest Barker, Sir Harry Johnston, Sir E. Ray Lankester and Gilbert Murray, but none, on investigation, had done more than to check facts in the final typescript. Astonishingly, apart from the clerical assistance of his wife, it had been all his own work.

THE SPINSTER AND THE PROPHET
By A.B. McKillop

Aurum Press; 496 pages; £18.99

Buy it at
Amazon.co.uk

Two years earlier, in July 1918, a middle-aged Canadian woman named Florence Deeks submitted a bulky manuscript to Macmillan, a publisher in Toronto. Her work was a history of the world with particular emphasis on the role of women throughout time. She called it “The Web of the World’s Romance”. Macmillan eventually rejected it, but failed to send it back to Deeks for several months. When she opened the returned package, she found that article corners had been turned down and that it had been well thumbed.

The similarities between the structure, contents and turn of phrase of these two works, “The Outline” and “The Web”, caused the long-running case of plagiarism that Deeks brought against Wells. She alleged that her manuscript had been sent to England during the months when it had gone missing and that Wells had plundered it ruthlessly, changing in effect only the treatment of women. Where Deeks had praised women and winkled out examples of their influence over the ages, Wells chose to denigrate and dismiss them. Even though her case was bolstered by the opinions of eminent historians, it failed. Undaunted, she appealed, reaching at length the judicial committee of the Privy Council in London.

A.B. McKillop came upon *Deeks v Wells* as a footnote and, intrigued, followed the trail. Combining the rigour of a professional historian with the pacing of a thriller writer, and adding some descriptive suppositions for embellishment, he tells what is on the whole a fascinating story and in so doing casts new light on Wells, while also giving a little bit of the history of Canadian publishing and revealing many ironies. His standpoint is from the Canadian side, and the English parts contain a few small errors.

Wells, though he remained with his second wife, led a love life as tangled as they come. Mr McKillop weaves his affairs into the tale. A preening libertine whose novels tended to offer justifications for his conquests, he was at the height of his popularity in the 1920s. That an unmarried, unpublished Canadian lady from an upright Victorian family should persistently attack him in the matter of copyright was presumptuous indeed.

Deeks, by contrast, led a virginal life, sharing a modest house with her mother and two sisters, Annie and Maud. The term spinster then came with all the negative connotations of being bitter and wizened, and the lawyers and publishers ranged against her—all men—had no compunction in portraying Deeks as an eccentric and obsessed old maid. It was extraordinary that she got as far as she did. Any villainy remains unproven. But, as Wells himself had maybe cynically written earlier in “A Modern Utopia”: “Fools make researches and wise men exploit them.”

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Jazz

Hit men

Feb 1st 2001
From The Economist print edition

AS A subject, jazz is flourishing: blockbuster CD sets by the great names of the past fill the record stores, histories and biographies line library shelves and there is scarcely a university which does not offer a jazz studies course. But its status as a living contemporary art is more problematic, with a plethora of bickering styles competing both against each other and against the relentless appeal of pop. Yet, as these three new volumes demonstrate, the passion and fascination generated by the music remain.

The massive "Oxford Companion to Jazz" is undeniably authoritative. Its 60 essays cover every aspect, and the first two expose at once the genre's complex nature. Where do you find the original essence of jazz—in the pentatonic scales, micro-tones and fluent cross-rhythms of Africa, or the dance tunes, harmonic sequences and symmetrical structures of Europe? Both elements were present in the procreative melting pot of New Orleans, but in what proportions? Surely the African-American presence was crucial, but there were many other races and traditions as well: such black giants as Jelly Roll Morton, Louis Armstrong and Sidney Bechet never failed to cite opera as a vital influence on their styles. From the beginning, jazz has been a hybrid, fluid and individual, and, as one scholar concludes, "all attempts to recover some authentic past are doomed to fail."

But there is no doubt about the magnificent heritage which evolved in sundry ways, and which the "Oxford Companion" charts in essays on individual stars, key groups and movements. These are worthy and informative, if sometimes a trifle schematic: how can you describe Duke Ellington's achievement in 15 pages? Inevitably, the book's interest is quickened by controversy: as jazz became more technically "streamlined" and artistically self-aware, some listeners and even some players felt it was losing its emotional identity. A chapter on Charlie Parker, a great saxophonist, describes the lightning invention which created bebop; but later, a star pianist, Horace Silver, came to feel that for all its expertise, bop had "eliminated the blues", and such intellectualism ultimately drove audiences into the sweaty embrace of rhythm and blues and rock.

THE OXFORD COMPANION TO JAZZ
Edited by Bill Kirchner

Oxford University Press; 864 pages; $49.95 and £30.

Buy it at
Amazon.com
Amazon.co.uk

JAZZ: A HISTORY OF AMERICA'S MUSIC
By Ken Burns and Geoffrey C. Ward

Knopf; 512 pages; $65.

Buy it at
Amazon.com

THE MAKING OF "KIND OF BLUE": MILES DAVIS AND HIS MASTERPIECE
By Eric Nisenson

St Martin's Press; 256 pages; $22.95

Buy it at
Amazon.com
Amazon.co.uk

A note of crisis appears in a number of the later Oxford essays, tracing the decline of the great body of American popular songs which used to be known as "standards" and which inspired a couple of generations of jazz musicians, the rise of a self- absorbed, audience-defying avant-garde and the loss of any inclusive jazz following or shared philosophy. Even the latter-day success of such young "neo-conservatives" as Wynton Marsalis, a trumpeter, arouses suspicion. Is their return to the older values of swing and musical accessibility "a positive sign for jazz or a triumph of marketing?" But the same critic asserts that, however fragmented, "the jazz world at the turn of the millennium is a crowded place, with room for a variety of approaches covering the gamut from tradition at all costs to newness for its own sake." And not just in the United States. A European correspondent declares that "every young musician in Europe plays or would like to play jazz"—which to them signifies freedom.

But it is the native experience that is celebrated in "Jazz: A History of America's Music". Linked to a television series, currently being shown on PBS, it covers the same territory as the "Oxford Companion" but with less emphasis on systematic scholarship and more on colour and personality. At the same time, its panoramic view addresses the key issues of race and musical identity with plenty of first-hand testimony and marvellous photographs. While coming to the same conclusions about the current divisions in jazz, it sees the music as fundamentally, even eternally, healthy, a kind of perpetual love song from master spirits like Louis Armstrong to anyone with ears to hear. Or as Mr Marsalis puts it, life can punish anybody, and "when it's your turn, Louis Armstrong is there to tell you...it's all right, son."

Eric Nisenson receives that same kind of abiding comfort from Armstrong's great descendant and fellow-trumpeter, Miles Davis. "The Making of 'Kind of Blue'" relates in absorbing and extensive detail the creation of the great album of the title, a modern jazz classic recorded in 1959 and a bestseller ever since. It is a remarkable study of the diverse personalities and talents in the Davis band—including such legendary figures as Bill Evans, a pianist, and John Coltrane, a tenorist—and how they gelled on two memorable afternoons to produce a masterpiece. For all the conflicts that exist in jazz, to Mr Nisenson, Davis's album illustrates the music's capacity to engender "works of art that, even in this age of transience and packaged feeling, will last as long as life itself."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Talkin' the talk

Feb 1st 2001
From The Economist print edition

MAX DECHARNE'S "Straight From the Fridge, Dad: A Dictionary of Hipster Slang" (No Exit Press, £9.99) is a lively and amusing collection of jive words and phrases. As Mr Décharné admits, this is hipster slang broadly defined. A true jive aficionado might feel better served by Babs Gonzales's "Boptionary", mentioned by Mr Décharné, which comprises 53 choice phrases "spread out over two small but immaculately cool pages".

As well as authentic jazz-talk, "Straight From the Fridge, Dad" includes the hardboiled jargon of pulp fiction and *film noir*, song lyrics and a liberal smattering of 1960s rat-pack argot. Jazz purists may bridle at the number of Dean Martin's throwaway lines recorded here, but there's certainly no denying his hipster fluency. In a conversation with Nat "King" Cole, Martin inquired: "Say, is it a solid fact that you guys can beat your chops, lace the boots and knock the licks out groovy as a movie whilst jivin' in a comin'-on fashion?" Preparing for occasions like that one, when a simple "Yes" wouldn't seem an acceptable reply, Mr Décharné's dictionary might well come in handy.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Video art

Bathhouse babe

Feb 1st 2001 | WARSAW
From The Economist print edition

Naked, not nude

TO HER detractors—and there are many—Katarzyna Kozyra is proof of the mediocrity and amorality of modern artists: untalented, ruthless, prepared to exploit, even kill, for personal gain. Not so, say her supporters. To them, Ms Kozyra—a winner at the Venice Biennale and with a new show running until March 7th at the Museum of Contemporary Art Oxford—is a brilliant proponent of nakedness in art. Nakedness, mark you, not nudity. (Where nudity is something contrived, a body sheathed in self-consciousness, and nakedness is total exposure of the inner as well as outer self.) Ms Kozyra polarises opinion. She is, quite possibly, the most loathed and admired artist in Poland. In other words, something very rare in Eastern Europe nowadays: an artist worth talking about.

Ms Kozyra, 37, burst on to the Polish art scene in 1993 with her controversial diploma work, a sculpture entitled the "Pyramid of Animals", loosely based on a Brothers Grimm story. The problem was not just that the sculpture consisted of a cockerel atop a cat, which was poised on a dog, itself nonchalantly perched on the wide back of a horse, but that Ms Kozyra had personally overseen the death and stuffing of these animals. She had sought them out for the killing, wading through maggot-infested corpses of recently gassed dogs and cats to find the less rotten. Then she had wrung the necks of a pair of cockerels and stood by as the horse, named Kasia, was killed, on her orders. Ms Kozyra filmed the flaying of the horse and played that meticulously gruesome work back alongside her sculpture. When conservatives and animal rights groups protested against the installation, Ms Kozyra was bemused. She was only documenting the everyday killing of millions of animals, she said, the evidence of which hangs in every butchery. The horse would have been ground into cat and dog food anyway, she pointed out, and the stray cats and dogs minced into meal for chickens.

She paid a high emotional price for the work. "My observing the death of the horse was 100% more terrible than all of the invectives that have been levelled against me." Months of deep paranoia and depression followed. "People just don't understand, they haven't got a clue what is really happening. Now even when I'm buying flowers I do it knowing that it's also a kind of total destruction."

From killing, Ms Kozyra turned to deconstructing the body as it is constructed by the expectations of society. In 1995, she showed her crippled sister, naked of course, in a national poster campaign, "Blood Ties", protesting against the war in Bosnia. The posters were withdrawn after complaints about the sacrilegious use they made of the cross.

Inflecting Ms Kozyra's work was a sense of her own mortality. She was riddled with cancer at the time and close to death. She took to video art to trace her decline and recovery. In a 1996 self-portrait, "Olympia", she placed herself in the same naked pose as Manet's courtesan. With her pallor and uncompromising stare, Manet's Olympia had shocked 19th-century viewers. Ms Kozyra's ravaged body—her head bald from chemotherapy, eyes sunken—also shocks. She looks, in art critic Artur Zmijewski's phrase, like a "chrononaut in the cosmos of haemotology."

Ms Kozyra is certainly courageous. Recovered from her illness, she promptly stirred up trouble with two more video installations. In 1997, for "The Bathhouse", she slipped a camera into a women's bathhouse in Budapest. The illicitly filmed sepia images are curiously reminiscent of Rembrandt: doughy old women waddling through steam, slipping into water. The Hungarian as well as the Polish press was outraged. Privacy had been violated, lawsuits would follow. Ms Kozyra defended her work in two ways. The bathhouse was a public place, people knew they were being observed. More theoretically, borrowing from

Michel Foucault, she suggested that women are observed at all times and in all ways in society, the camera was an irrelevance.

In 1999, Ms Kozyra did the same again, this time secretly filming in a Budapest men's bathhouse, disguised as a man. The resulting installation—"The Men's Bathhouse"—won the Venice Biennale in 1999. Her justification was blunt: why should only women be spied upon?

Entry to the male sanctuary was complicated. Ms Kozyra had to strap on a penis, apply a pubic toupé and foam balls, crop her hair, glue on a beard, and cover her breasts and buttocks. She says she never even came close to being discovered. "Their conviction that I was a guy cloaked me better than any disguise." Her problem was the opposite. The fake penis was rather too large for her petite build and attracted amorous advances. "Yes, well. I'm not tremendously popular as a woman; but as a guy I had three suitors in 30 minutes."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Literary biography

First, a poet

Feb 1st 2001
From The Economist print edition

EVEN to his contemporaries, Rochester was a legendary figure. One of the youngest and most handsome courtiers of the restored Charles II, he was the favourite of a king whose wit, lasciviousness and serious intellectual interests he shared. He was banished from court several times, but Charles's pleasure in his conversation always resulted in his recall. His authentic adventures included the attempted abduction of an heiress (whom he later married), smashing a phallic-shaped sundial in the royal gardens during a drunken spree, and a violent affray with the watch at Epsom in which one of his companions was killed.

THE SATYR: AN ACCOUNT OF THE LIFE AND WORK, DEATH AND SALVATION OF JOHN WILMOT, SECOND EARL OF ROCHESTER
By Cephas Goldsworthy

Weidenfeld & Nicolson; 302 pages; £25

Buy it at
Amazon.co.uk

Quite apart from his reputation as a poet, he was feted in the writings of his friends, notably in Sir George Etherege's comedy, "The Man of Mode". Just before he died in 1680, at the age of 33, destroyed by alcoholism and syphilis, Rochester's legend took a surprising turn. After a series of conversations with an Anglican rationalist divine, Gilbert Burnet, the sceptical libertine made a death-bed conversion which was celebrated in the devotional literature of the succeeding century.

Engaging as it is, the Rochester legend has always been a distraction. It has resulted in many apocryphal stories and dubious attributions, and it can still divert attention from the poetry. It is Rochester's achievement as a poet which commands our interest and makes him something more than a luridly colourful period figure. For all the brevity of his career, Rochester is a crucial figure in the development of English verse satire and the Horatian epistle, a student of his elder French contemporary Boileau, and an important exemplar for later poets as different as Alexander Pope and Anne Finch, Countess of Winchilsea.

Cephas Goldsworthy's "The Satyr" gives us the legend. Although there are no footnotes to sources, the book shows some acquaintance with modern Rochester scholarship and its rejection of spurious verse from his canon—but only intermittently. Anecdotes concerning Rochester and his crony George Villiers, Duke of Buckingham, are retailed without any indication that they have, in fact, been discredited; poems no longer attributed to Rochester are cited as if they were authentic. Mr Goldsworthy quotes liberally from the poetry, but repeatedly reads it as straightforward autobiography. For example, we are told that "My dear mistress has a heart" is addressed to Elizabeth Barry, an actress, which is incautious given the uncertain dating of this song, and indeed of most of Rochester's poems. More generally, while of course some of the satires include references to actual persons, as often as not in 17th-century love poetry the emotion is genuine but the addressee is fictitious.

A less simplistic way to relate Rochester's poetry to his life would be to read the former as an exploration of what it means to live according to libertine values. In his best satires and even some of the lyrics he articulated an anti-rational nihilistic vision scarcely found elsewhere in English verse. Such a task belongs to a critical biography. There is no mistaking Mr Goldsworthy's enthusiasm for his subject, but his book is essentially biography as entertainment.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Marie-José

Feb 1st 2001
From The Economist print edition

Marie-José, the last queen of Italy, died on January 27th, aged 94

EPA

HER coronation, Marie-José said later, was rather a fussy affair. Her dresser had recalled that at Marie-José's wedding years earlier (pictured) her veil had come adrift three times while she was walking down the aisle. Madam would not want that to happen again, would she? Probably madam did not care. She gave the impression of being indifferent to ceremony. But she submitted to the nagging of her attendant and everyone at the coronation said that no one in the history of Italy had looked more queenly. Marie-José and her husband Umberto were crowned on May 9th 1946. On June 2nd, Italy voted in a referendum to become a republic. The couple stood down after reigning for 27 days, Italy's last king and queen.

Like much that happens in Italy, the events of that early summer in Rome were political. The previous Italian king, Victor Emmanuel III, who had co-operated with the dictator Benito Mussolini, had abdicated, hoping to save the monarchy. His son Umberto and Marie-José would, he said, provide a fresh start.

But the Italians wanted a fresher start. They were tired of being the despised underdogs of Europe. In the second world war, while the Germans had easy victories in Western Europe, Italian armies were defeated in North Africa and Greece. When Italy surrendered to Britain and the United States in 1943, Germany took over much of the country until its own defeat in 1945.

The monarchy could not be blamed for Italy's military incompetence, but it was associated with a discredited era. Umberto himself did not look all that fresh: he had been an army general. The monarchists' hopes had really rested on the popularity of Marie-José Charlotte Sophie Amélie Henriette Gabrielle of Saxony-Coburg, a royal name if ever there was one. It could not be said that they liked her: she was a rarity among the royals of Europe, politically of the left. But ordinary Italians loved the stories that were told of her rebellious ways.

Her meeting with Hitler

Admirers of Marie-José tend to portray her as a resistance heroine standing up to the iniquities of Mussolini. It is an understandable sentiment in a country seeking to atone for inventing fascism. *La Repubblica*, a newspaper not known for monarchist sympathies, gave three pages this week to the death of "the rebel queen". Marie-José's parents were the king and queen of Belgium, regarded as a liberal-minded couple for their time. Her mother Elisabeth was, at the age of 82, the first European royal to visit the Soviet Union, an enterprise that earned her the nickname the Red Queen.

With Marie-José's native Belgium swiftly annexed in 1940 (as it had been in the first world war), she had good reason to loathe the Germans, whom she called pigs and liars. She went to see Hitler at his retreat in Berchtesgaden to plead, without success, for food for starving Belgium. Her main recollection was that he ate chocolate throughout the interview.

Count Ciano, Mussolini's foreign minister, noted in his diary that Marie-José asked him to use his influence to try to stop Italy entering the war on Germany's side, but it is unclear whether he followed it up. The king, her father-in-law, told her to keep her "nose out of family politics".

She had her little victories. She refused Mussolini's request to Italianise her name to Maria Giuseppina. But it is unlikely that Mussolini saw her as a threat. He valued her as the head of the Italian Red Cross. She accompanied the Italian army on its invasion of Abyssinia (later Ethiopia) in 1935 and was said to have "healing hands". The picture that emerges of her in the troubled 1930s and 1940s is of a divided personality, loyal to her husband's country but disturbed by a Europe run by tyrants. When she saw Allied bombers over Rome, she wrote of them as "white liberating birds".

She had talent with words. After the war, when she chose to live apart from her husband, she made her home in Geneva and built a career as a writer. Exile, she remarked, was one of the many inconveniences of royal life, and it had to be endured with dignity. One of her books is a history of Italian royalty. Republican Italy continues to be fascinated with monarchy. The popular picture weeklies rely on stories of royal escapades.

Should Italy decide to have a monarch again, Victor Emmanuel, aged 63, one of Marie-José's four children, or Emmanuel Filiberto, a grandson, would have claims. But neither has even been allowed back to Italy. When Romano Prodi became prime minister in 1996, he was inclined to allow them to come home but his government fell before he could get parliament to agree. Mr Prodi is now president of the European Commission, but not even Brussels has divine right over royal matters.

Marie-José saw little likelihood of a royal rebirth in Italy, or indeed anywhere else that had banished monarchy. When she was a child Europe was awash with kings and queens. Her mother's native Germany had some 20 principalities in the 19th century, each with its monarch. Marie-José thought that her father had got it about right in a changing Europe: "There will be many more unemployed in our trade."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

OUTPUT, DEMAND AND JOBS

Feb 1st 2001
From The Economist print edition

America's GDP growth slowed to an annual rate of 1.4% in the fourth quarter, the smallest rise for 5 1/2 years. The year-on-year rate cooled to 3.5%. Britain's GDP growth also moderated to 2.4% in the year to the fourth quarter. The euro area's unemployment rate remained at 8.7% in December, while Japan's also held steady at 4.8%.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2000	2001	3 mths†	1 year	1 year	latest	year ago
Australia	+ 2.6	+ 4.2 Q3	+ 4.4	+ 3.3	– 1.5	+ 4.2 Q3*	– 0.8 Q3	6.6 Dec	7.0
Austria	+ 1.2	+ 1.9 Q3	+ 3.4	+ 2.5	na	+ 6.7 Oct*	– 1.1 Oct	3.2 Nov	3.6
Belgium	+ 2.0	+ 3.2 Q3	+ 3.9	+ 2.8	na	– 0.2 Nov*	+ 6.1 Oct	10.6 Dec*	11.3
Britain	+ 1.0	+ 2.4 Q4	+ 3.0	+ 2.6	– 2.6	+ 0.3 Nov	+ 4.4 Dec	5.3 Nov‡	5.9
Canada	+ 4.8	+ 5.0 Q3	+ 4.9	+ 3.0	+ 1.2	+ 4.5 Nov	+ 5.4 Oct	6.8 Dec	6.8
Denmark	+ 2.0	+ 2.7 Q3	+ 2.6	+ 2.1	na	+ 2.6 Nov	+ 0.2 Oct	5.4 Dec	5.4
France	+ 2.3	+ 3.0 Q3	+ 3.2	+ 2.7	+ 3.6	+ 2.3 Nov	– 1.5 Nov	9.2 Dec	10.6
Germany	+ 2.3	+ 2.8 Q3	+ 3.1	+ 2.5	+ 3.9	+ 4.9 Nov	+ 0.5 Nov	9.2 Dec	10.2
Italy	+ 2.4	+ 2.5 Q3	+ 2.6	+ 2.2	+ 1.9	+ 2.4 Nov	– 1.2 Nov	10.0 Oct	11.1
Japan	+ 1.0	+ 1.4 Q3	+ 1.8	+ 1.6	+ 1.0	+ 3.5 Dec	– 0.3 Nov	4.8 Dec	4.7
Netherlands	+ 2.8	+ 3.3 Q3	+ 3.9	+ 3.1	– 1.4	+ 2.2 Nov	+ 0.4 Oct	2.6 Dec§	2.7
Spain	+ 2.2	+ 3.9 Q3	+ 4.0	+ 3.2	– 0.5	+ 4.0 Nov	na	13.7 Dec	15.1
Sweden	+ 3.9	+ 4.0 Q3	+ 4.0	+ 3.4	na	+ 9.9 Nov	+ 4.0 Nov	3.7 Dec*	5.3
Switzerland	+ 2.0	+ 3.6 Q3	+ 3.4	+ 2.3	na	+ 6.9 Q3*	– 3.3 Nov	1.9 Dec*	2.5
United States	+ 1.4	+ 3.5 Q4	+ 5.1	+ 2.3	– 1.1	+ 3.1 Dec	+ 4.2 Nov	4.0 Dec	4.1
Euro area	+ 2.8	+ 3.4 Q3	+ 3.4	+ 2.9	+ 5.4	+ 4.4 Nov	+ 1.0 Oct	8.7 Dec	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 7.0	+ 5.6 Q3	na	na	+21.5	+17.3 Nov	+ 2.2 Oct	8.3 Dec*	9.1
Greece	na	+ 3.7 1999	na	na	na	– 7.2 Aug	+ 9.7 Aug	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.3 Dec	1.7
Ireland	+21.5	+12.2 Q2	na	na	+31.0	+ 5.2 Jul	+ 9.7 Nov	3.6 Dec	4.7
Luxembourg	na	+ 7.5 1999	na	na	na	– 1.9 Oct*	+ 7.9 Aug	2.6 Nov	2.8
New Zealand	+ 2.7	+ 2.4 Q3	na	na	na	+11.5 Q3*	+ 1.7 Q3	5.7 Q3	6.6
Norway	+ 1.3	+ 1.0 Q3	na	na	+ 6.8	– 0.3 Nov	– 0.5 Nov	3.5 Q3	3.3
Portugal	+ 0.8	+ 2.6 Q2	na	na	na	+ 0.8 Nov*	+ 3.8 Oct	3.4 Q3	4.2

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Sep-Nov; claimant count rate 3.6% in December. §Oct-Dec.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

COMMODITY PRICE INDEX

Feb 1st 2001
From The Economist print edition

The future is finally looking bright for Australia's wool farmers. World demand for Australia's wool is outstripping production for the second season running, and stocks are shrinking fast. The national stockpile, now under 500,000 bales, could fall to only 200,000 bales by the end of June. Stocks held by farmers and brokers are also dropping, suggesting that supplies will be the lowest in a decade by the end of the season. In the 12 months to November 2000 Australia exported 243,000 tonnes of wool to China—37% of its total wool exports. China has increased its import quota to 160,000 tonnes for the first half of this year. The news has boosted prices, which are at the highest level for three years; prices for finer wool grades are at a ten-year high.

1995=100	Jan 23rd	Jan 30th*	% change on one month	% change on one year
Dollar index				
All items	73.5	72.7	– 0.1	– 3.2
Food	72.4	70.5	– 2.9	– 1.0
Industrials				
All	75.1	75.7	+ 3.8	– 5.8
Nfa†	66.5	67.5	+ 1.5	– 8.1
Metals	82.3	82.6	+ 5.5	– 4.2
Sterling index				
All items	78.8	78.5	+ 2.3	+ 7.0
Food	77.6	76.1	– 0.6	+ 9.5
Industrials	80.5	81.7	+ 6.3	+ 4.1
Euro index				
All items	103.0	103.4	+ 2.4	+ 1.9
Food	101.4	100.3	– 0.5	+ 4.2
Industrials	105.1	107.7	+ 6.4	– 0.9
Yen index				
All items	91.6	90.3	+ 1.8	+ 4.7
Food	90.1	87.5	– 1.1	+ 7.0
Industrials	93.5	94.0	+ 5.8	+ 1.9
Gold				
$ per oz	266.20	266.20	– 1.6	– 5.9
Crude oil North Sea Brent				
$ per barrel	26.49	26.62	+ 5.0	+ 0.4
West Texas Intermediate				
$ per barrel	29.51	29.10	+ 6.7	+ 1.9

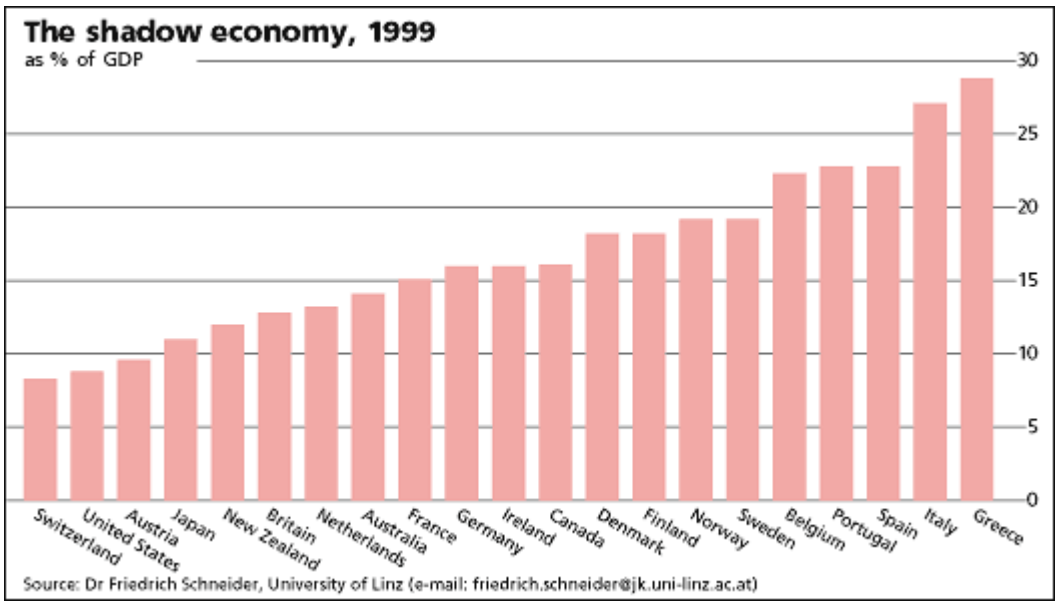
* Provisional † Non-food agriculturals.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

UNDERGROUND ECONOMY

Feb 1st 2001
From The Economist print edition

Criminal and other unmeasured economic activity equalled 29% of Greece's GDP in 1999, a bigger slice of national output than any other OECD country, according to new estimates by Friedrich Schneider of the University of Linz. The shadow economy ranges from illegal markets such as prostitution to the unreported income of self-employed workers. Switzerland has the smallest underground economy, equal to only 8% of GDP. Such activities are by nature hard to measure, so comparisons of the same country over time may be more telling. The shadow economy's share of national output grew in every OECD country from 1989 to 1999. Rising tax and social security burdens, in addition to increased government regulation, seem to be crowding out the official economy.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

PRICES AND WAGES

Feb 1st 2001
From The Economist print edition

Japan's consumer prices fell by 0.2% in the year to December—the second successive year of deflation. Heightened competitiveness in pricing at home and from abroad took its toll. Germany's inflation rate quickened to 2.4% in the year to January. Japan's workers received at pay rise of 1.8% in the 12 months to December, a real rise of 2%.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2000	2001	3 mths†	1 year	3 mths†	1 year
Australia	+ 1.2	+ 5.8 Q4	+ 4.6	+ 4.0	+10.2	+ 8.4 Q4	+ 8.1	+ 6.8 Q3
Austria	+ 2.8	+ 2.6 Dec	+ 2.1	+ 1.6	+ 4.4	+ 4.4 Dec	+ 1.9	+ 2.2 Dec
Belgium	+ 0.7	+ 2.2 Jan	+ 2.6	+ 2.1	+16.2	+10.0 Nov	+ 3.7	+ 1.6 Q4
Britain	+ 2.5	+ 2.9 Dec	+ 2.4	+ 2.3	+ 1.6	+ 2.4 Dec	+ 5.7	+ 4.4 Nov
Canada	+ 2.5	+ 3.2 Dec	+ 2.7	+ 2.4	+ 4.9	+ 3.5 Dec	+ 0.7	+ 3.4 Nov
Denmark	+ 2.7	+ 2.4 Dec	+ 2.9	+ 2.3	+ 3.0	+ 3.9 Dec	+ 7.0	+ 3.8 Q3
France	+ 1.7	+ 1.6 Dec	+ 1.8	+ 1.6	+ 5.2	+ 4.7 Dec	+ 4.6	+ 5.3 Q3
Germany	+ 1.7	+ 2.4 Jan	+ 1.9	+ 1.6	+ 5.3	+ 5.1 Dec	na	+ 1.8 Nov*
Italy	+ 2.9	+ 2.7 Dec	+ 2.5	+ 2.1	+ 6.1	+ 6.2 Dec	+ 1.9	+ 1.8 Nov*
Japan	+ 0.7	− 0.2 Dec	− 0.7	− 0.4	− 0.1	+ 1.1 Dec	na	+ 1.8 Dec
Netherlands	+ 3.3	+ 2.9 Dec	+ 2.4	+ 3.1	+ 7.4	+ 7.6 Dec	+ 3.0	+ 2.9 Nov
Spain	+ 3.4	+ 4.0 Dec	+ 3.4	+ 2.9	+ 4.8	+ 5.0 Dec	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.4 Dec	+ 1.3	+ 1.7	+ 6.7	+ 3.7 Dec	− 4.2	+ 2.9 Oct*
Switzerland	+ 1.9	+ 1.5 Dec	+ 1.7	+ 1.5	+ 1.8	+ 2.2 Dec	na	+ 0.2 1999
United States	+ 2.7	+ 3.4 Dec	+ 3.3	+ 2.6	+ 3.5	+ 3.6 Dec	+ 4.6	+ 4.2 Dec
Euro area	+ 2.1	+ 2.6 Dec	+ 2.3	+ 2.0	+ 7.7	+ 6.3 Nov	+ 1.2	+ 1.8 Q3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.1	+ 3.5 Dec	na	na	+ 5.4	+ 6.0 Dec	+ 1.3	+ 4.4 Q3*
Greece	+12.6	+ 3.9 Dec	na	na	+13.8	+ 9.0 Nov	na	na
Iceland	+ 4.4	+ 3.5 Jan	na	na	+ 2.8	+ 4.4 Jan	+ 1.9	+ 7.6 Dec
Ireland	+ 5.7	+ 5.9 Dec	na	na	+ 4.2	+ 4.5 Dec	− 5.7	+ 6.1 Q1*
Luxembourg	+ 5.5	+ 3.5 Dec	na	na	+ 1.2	+ 5.2 Oct	+11.7	+ 4.9 Sep*
New Zealand	+ 4.7	+ 4.0 Q4	na	na	+16.1	+ 8.0 Q3	+ 1.1	+ 1.5 Q3
Norway	+ 3.7	+ 3.0 Dec	na	na	+ 2.8	+ 3.8 Dec	+ 2.9	+ 3.8 Q3*
Portugal	+ 4.1	+ 3.9 Dec	na	na	+16.1	+13.4 Dec	na	+ 3.0 Nov*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

MONEY AND INTEREST RATES

Feb 1st 2001
From The Economist print edition

America's Federal Reserve cut its target for the federal funds rate by 50 basis points to 5.5%, the lowest rate for a year. In the year to December broad money-supply growth slowed again to 4.9% in the euro area. It stayed at 4.8% in Australia.

	Money supply* % rise on year ago			Interest rates % p.a. (Jan 31st 2001)						
				over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad		night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+ 9.3	+ 4.8	Dec	6.25	5.82	5.88	9.00	4.80	5.35	7.17	6.68
Britain	+ 4.8	+ 8.2	Dec	6.84	5.81	6.13	7.00	5.17	4.73	5.60	5.99
Canada	+14.2	+ 8.0	Dec	5.37	5.13	5.24	7.25	4.88	5.40	6.45	7.18
Denmark	na	+ 1.8	Dec	5.50	5.40	3.76	8.00	4.89	5.09	5.72	7.18
Japan	+ 4.3	+ 2.2	Dec	0.24	0.41	0.05	1.50	0.31	1.43	1.79	1.64§
Sweden	+ 1.9	+ 2.1	Dec	4.00	4.01	3.74	4.46	4.07	4.79	5.80	4.39
Switzerland	– 2.6	– 1.7	Dec	3.45	3.42	2.11	5.50	3.15	3.42	3.59	4.40
United States	3.0	+ 8.6	Dec	5.75	5.40	5.84	9.50	4.67	5.15	6.87	7.02
Euro area‡	+ 5.0	+ 4.9	Dec	4.82	4.65	3.49	5.55	4.38	4.73	5.39	5.57

† France 4.86, Germany 4.73, Italy 5.17. Benchmarks: Japan No.228 1.50, US 30-yr 5.54. ‡ Germany for prime and bonds. §New series.

*Narrow: V1 except Britain V0, broad M2 or M3 except Britain M4. Sources: Commerzbank, Den Danske, J.P. Morgan Chase, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Group, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

IMMIGRATION

Feb 1st 2001
From The Economist print edition

Since the late 1990s, immigration has been rising in most OECD countries. This followed a sharp downturn from the start of the decade. The increase has been particularly marked in Britain, partly because of a sharp rise in the number of asylum seekers. America continues to be the most popular destination, followed by Germany and then Britain. But when inflows are related to the size of the host population, smaller countries like Luxembourg and Switzerland lead the ranking. Among large countries, Germany is the most popular destination. The OECD expects that immigration will increase in Europe if the economic recovery lasts. Although family-linked immigration continues to dominate, the number of workers migrating to find jobs is rising.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

TRADE, EXCHANGE RATES AND BUDGETS

Feb 1st 2001
From The Economist print edition

The euro area's visible trade surplus narrowed yet again to $13.5 billion in the 12 months to November. Meanwhile its current-account deficit widened to $26.2 billion. In the same period Italy's visible-trade surplus shrank to only $1.3 billion. In trade-weighted terms the yen rose by 1.3% over the week.

	Trade balance*, $bn		Current account			Exchange rate		Currency units					Budget
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2000	2001	trade-weighted† Jan 31st	year ago	per $ Jan 31st	per $ year ago	per £	per euro	per ¥100	balance % of GDP 2000‡
Australia	− 0.29 Dec	− 4.6	− 17.8 Q3	-4.3	-3.5	74.3	81.9	1.82	1.57	2.66	1.69	1.57	0.9
Austria	− 0.41 Oct§	− 4.0	− 4.4 Nov	-2.6	-2.3	100.5	100.5	14.8	14.2	21.6	13.8	12.72	-1.6
Belgium	+ 1.69 Oct§	+ 13.5	+ 10.3 Sep	4.1	4.0	99.4	99.2	43.4	41.5	63.4	40.3	37.3	-0.1
Britain	− 3.06 Nov	− 42.4	− 16.3 Q3	-1.5	-1.9	103.9	109.6	0.68	0.62	–	0.64	0.59	2.7
Canada	+ 2.91 Nov	+ 33.6	+ 7.7 Q3	1.2	0.6	79.5	81.6	1.50	1.45	2.19	1.40	1.29	2.5
Denmark	+ 0.37 Nov	+ 4.3	+ 2.6 Nov	1.3	1.3	102.0	101.4	8.02	7.65	11.7	7.46	6.90	2.7
France	+ 0.01 Nov	+ 2.9	+ 26.9 Oct	2.3	1.9	102.1	102.0	7.05	6.75	10.3	6.56	6.07	-1.4
Germany	+ 2.22 Nov	+ 52.7	− 29.2 Nov	-1.3	-0.9	99.1	99.0	2.10	2.01	3.07	1.96	1.81	1.4
Italy	− 0.18 Nov	+ 1.3	− 5.8 Oct	-0.3	-0.3	72.9	72.9	2,082	1,991	3,043	1,936	1,791	-0.1
Japan	+ 8.18 Nov	+ 120.5	+ 120.0 Nov	2.5	2.2	142.5	149.0	116	108	170	108	–	-6.0
Netherlands	+ 0.93 Nov§	+ 12.4	+ 13.9 Q3	4.9	4.4	98.3	98.0	2.37	2.27	3.46	2.20	2.04	1.6
Spain	− 3.10 Oct	− 39.6	− 19.2 Oct	-3.5	-3.1	74.5	74.3	179	171	261	166	154	-0.3
Sweden	+ 0.89 Dec	+ 14.1	+ 5.9 Nov	2.1	2.1	79.6	82.6	9.52	8.75	13.9	8.86	8.19	3.4
Switzerland	− 0.17 Dec§	− 1.1	+ 32.5 Q3	11.9	11.2	108.3	102.5	1.64	1.66	2.40	1.53	1.41	na
United States	− 39.00 Nov	− 441.7	− 416.5 Q3	-4.4	-4.2	114.2	108.0	–	–	1.46	0.93	0.86	2.3
Euro area	+ 1.45 Nov§	+ 13.5	− 26.2 Nov	-0.3	-0.2	80.9	80.5	1.08	1.03	1.57	–	0.92	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 0.98 Nov§	+ 13.3	+ 8.9 Nov	na	na	78.2	77.5	6.44	6.12	9.41	5.99	5.54	4.0
Greece	− 1.80 Q3	− 7.2	− 7.6 Sep	na	na	57.6	59.0	369	342	539	343	317	-1.0
Iceland	− 0.03 Nov§	− 0.5	− 0.7 Q2	na	na	na	na	86.3	74.1	126	80.3	74.2	2.8
Ireland	+ 2.85 Oct	+ 26.0	+ 0.2 Q3	na	na	88.3	87.4	0.85	0.81	1.24	0.79	0.73	5.6
Luxembourg	− 0.18 Oct	− 2.6	+ 1.6 Q3	na	na	99.4	99.2	43.7	41.5	63.9	40.6	37.6	na
New Zealand	− 0.02 Dec§	− 0.6	− 3.3 Q3	na	na	81.2	84.3	2.28	2.04	3.33	2.12	1.96	0.5
Norway	+ 2.17 Nov	+ 25.5	+ 21.4 Nov	na	na	93.1	94.4	8.91	8.25	13.0	8.29	7.66	14.0
Portugal	− 1.00 Sep§	− 15.0	− 11.0 Nov	na	na	89.6	89.3	217	206	317	202	187	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.
§Not seasonally adjusted.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

STOCKMARKETS

Feb 1st 2001
From The Economist print edition

Wall Street hardly moved after the Fed's interest-rate cut on January 31st; investors had expected such a move for several weeks. The tech-heavy Nasdaq fell by nearly 3% during the week, while the broad S&P 500 was virtually unchanged.

Market indices		2000-01		% change on one week	one year	record high	Dec 31st 1999 in local currency	in $ terms
	Jan 31st	high	low					
Australia (All Ordinaries)	3,291.5	3,330.4	2,920.0	+ 1.4	+ 5.6	– 1.2	+ 4.4	– 12.4
Austria (ATX)	1,104.1	1,236.1	1,029.4	+ 1.5	+ 0.2	– 36.4	– 7.8	– 14.4
Belgium (Bel 20)	2,968.6	3,340.4	2,532.2	– 0.9	+ 6.4	– 19.4	– 11.1	– 17.5
Britain (FTSE 100)	6,297.5	6,930.2	5,994.6	+ 0.5	– 0.1	– 9.1	– 9.1	– 17.6
Canada (Toronto Composite)	9,321.9	11,388.8	8,114.2	+ 0.2	+ 6.3	18.1	+ 10.8	+ 7.1
Denmark (Copenhagen SE)	998.8	1,039.0	755.1	0.3	+ 28.0	3.9	+ 28.9	+ 19.3
France (SBF 250)	3,820.2	4,390.7	3,512.8	+ 1.6	+ 0.1	– 13.0	+ 0.2	– 7.0
Germany (Xetra DAX)	6,795.1	8,065.0	6,200.7	+ 1.3	– 5.3	– 15.7	– 2.3	– 9.4
Italy (BCI)	1,948.4	2,182.3	1,666.4	+ 0.5	+ 6.2	– 10.7	+ 7.2	– 0.5
Japan (Nikkei 225)	13,843.6	20,833.2	13,201.1	– 0.4	– 29.3	– 64.4	– 26.9	– 35.3
(Topix)	1,300.2	2,507.6	1,230.1	– 0.3	– 24.0	– 54.9	– 24.5	– 33.2
Netherlands (EOE)	640.0	701.6	612.4	+ 0.6	+ 1.7	– 8.8	– 4.7	– 11.5
Spain (Madrid SE)	962.6	1,146.2	857.9	+ 0.1	4.1	16.0	4.6	11.4
Sweden (Affarsvarlden Gen)	5,094.3	6,960.6	4,558.5	+ 1.7	15.0	26.8	7.4	16.9
Switzerland (Swiss Market)	8,057.4	8,377.0	6,781.4	+ 1.5	+ 13.5	– 4.2	+ 6.4	+ 3.7
United States (DJIA)	10,887.4	11,723.0	9,796.0	+ 2.3	– 1.1	– 7.1	– 5.3	– 5.3
(S&P 500)	1,365.9	1,527.5	1,264.7	+ 0.1	– 3.1	– 10.6	– 7.0	– 7.0
(Nasdaq Comp)	2,772.7	5,048.6	2,291.9	– 3.0	– 31.9	– 45.1	– 31.9	– 31.9
Europe (FTSE Eurotop 300)*	1,544.4	1,705.0	1,472.5	+ 0.2	+ 0.4	– 9.4	– 2.5	– 9.5
Euro area (FTSE Ebloc 100)*	1,404.1	1,550.5	1,277.7	+ 0.5	+ 2.0	9.4	+ 1.4	5.9
World (MSCI)†	1,244.2	1,448.8	1,178.2	+ 0.6	8.3	14.1	na	12.4
World bond market (Salomon)‡	443.5	447.8	414.8	+ 1.3	+ 4.2	– 3.6	na	+ 1.5

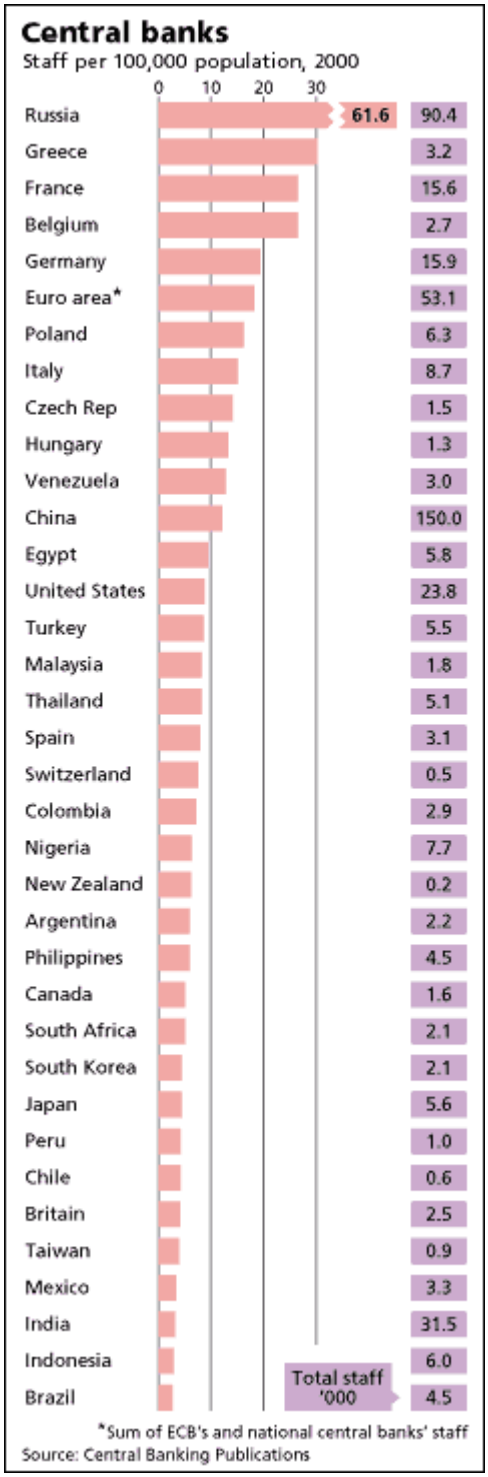
*In euro terms †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms
‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

BANKERS

Feb 1st 2001
From The Economist print edition

Three countries—China, Russia and India—together employ almost half of the 550,000 employees of the world's 173 central banks, according to an annual survey by Morgan Stanley. Relative to population, however, the Russian central bank is in a class of its own. Judged by this standard, members of the euro area run five of the seven biggest central banks on their own; the area's national central banks still employed more than 50,000 people last year, twice as many as America's Federal Reserve, though none of them actually run monetary policy. Some central banks are getting slimmer, though: last year Sweden's Riksbank cut its workforce by 31%; the Canadian and South African central banks each shed 15% of their staff.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

FINANCIAL MARKETS

Feb 1st 2001
From The Economist print edition

The Bogota stockmarket gained 7.5%, as strike talks reopened at Bavaria, a heavyweight in the index. Share prices in Cairo and Singapore both rose by 4.0%. China's stockmarket, closed since January 19th for new year holidays, will reopen on February 5th. Emerging-market currencies were generally stronger against the dollar.

	Currency units per $		per £	Interest rates short-term	Stockmarkets Jan 31st	% change on Dec 31st 1999		
	Jan 31st	year ago	Jan 31st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.1	5.40	2,185.2‡	nil	+ 50.5	+ 50.5
Hong Kong	7.80	7.78	11.4	5.26	16,102.4	+ 0.4	5.1	5.4
India	46.4	43.6	67.8	8.87	4,326.7	nil	13.6	18.9
Indonesia	9,450	7,590	13,812	14 98	425.6	+ 2.1	− 37.1	− 53 1
Malaysia	3.80	3.80	5.55	3.30	727.7	+ 2.3	− 10.4	− 10.4
Philippines	48.9	40.7	71.5	13.81	1,687.0	+ 1.3	− 21.3	− 35.2
Singapore	1.74	1.70	2.55	2.50	1,991.3	+ 4.0	− 19.7	− 23.3
South Korea	1,257	1,131	1,837	5.94	617.9	1.5	39.9	45.8
Taiwan	32.4	30.7	47.3	5.25	5,936.2	+ 1.5	29.7	32.0
Thailand	42.5	37 6	62 1	3 25	332.8	+ 2.2	− 30.9	− 38 9
Argentina	1.00	1.00	1.46	7.83	532.8	nil	− 2.9	− 2.9
Brazil	1.97	1.79	2.89	15.15	17,672.8	− 0.6	+ 3.4	− 6.1
Chile	562	517	821	4.34*	5,103.6	nil	− 1.2	− 6.9
Colombia	2,242	1,964	3,277	13.39	783.0	+ 7.5	21.5	34.4
Mexico	9 68	9.57	14 1	17 82	6,496.9	+ 2.9	− 8.9	− 10 7
Peru	3 53	3.47	5 2	10 38	1,280.6	− 0.6	− 30.2	− 30 6
Venezuela	700	657	1,023	11.92	7,903.7	− 3.5	+ 45.9	+ 35.2
Egypt	3.87	3.43	5.66	9.09	7,648.9	+ 4.0	− 41.3	− 48.1
Israel	4.14	4.06	6.05	5.93	445.6	− 1.8	− 8.5	− 8.1
South Africa	7.76	6.29	11.3	10.45	9,071.8	+ 2.7	+ 6.2	15.8
Turkey	676,760	561,215	989,152	37 00	10,685.1	− 1.8	− 29.7	− 43 7
Czech Republic	37.4	36.8	54.6	5.32	501.8	− 1.3	+ 2.5	− 1.5
Hungary	285	263	417	11.29	8,145.8	+ 1.3	− 7.6	− 17.8
Poland	4.09	4.24	5.98	18.86	17,602.9	+ 1.8	− 2.7	− 1.5
Russia	28.5	28.7	41.6	25.00	173.5†	0.5	+ 0.9	2.4

* nflation-adjusted † n dollar terms. ‡Jan '91

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

ECONOMY

Feb 1st 2001
From The Economist print edition

Poland's GDP grew by 4.1% in 2000—the same as in 1999 and less than expected. Output in the fourth quarter was 2.2% higher than in the same period a year earlier. South Korea's industrial output fell by 2.7% in December; year-on-year growth slowed to 4.7%. After being down 1.7% in the year to November, Thailand's output rose 1.5% in the year to December.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 7.4 Q4	+10.4 Dec	+ 1.5 Dec	+24.1 Dec	+15.7 1999	163.9 Nov	156.8
Hong Kong	+10.4 Q3	− 0.1 Q3	− 1.8 Dec	−10.9 Dec	+ 9.2 Q3	107.5 Dec	96.3
India	+ 7.2 Q4†	+ 2.7 Nov	+ 2.7 Nov	− 9.0 Nov	− 5.6 Q3	37.3 Dec	32.7
Indonesia	+ 5.1 Q3	+38.4 Q4†	+ 9.4 Dec	+28.6 Nov	+ 6.2 Q1	29.0 Nov	26.3
Malaysia	+ 7.7 Q3	+11.1 Nov	+ 1.4 Dec	+16.8 Nov	+11.3 Q2	29.6 Nov	29.8
Philippines	+ 4.8 Q3	+36.6 Nov	+ 6.6 Dec	+ 5.7 Nov	+ 9.1 Aug	12.5 Oct	12.8
Singapore	+10.5 Q4	+17.1 Nov	+ 2.0 Nov	+ 4.0 Nov	+21.6 Q3	77.5 Nov	74.3
South Korea	+ 9.2 Q3	+ 4.7 Dec	+ 4.2 Jan	+12.9 Jan	+11.7 Nov	96.2 Dec	74.0
Taiwan	+ 6.6 Q3	− 2.1 Dec	+ 1.7 Dec	+ 8.4 Dec	+ 7.5 Q3	108.2 Nov	103.5
Thailand	+ 2.6 Q3	+ 1.5 Dec	+ 1.3 Jan	+ 5.6 Dec	+ 9.2 Dec	31.7 Nov	32.1
Argentina	nil Q3	− 3.4 Dec	− 0.7 Dec	+ 0.6 Nov	−10.5 Q3	22.4 Nov	24.5
Brazil	+ 4.5 Q3	+ 4.9 Nov	+ 5.3 Dec	− 0.2 Dec	−24.6 Dec	32.5 Nov	42.2
Chile	+ 5.8 Q3	− 3.8 Dec	+ 4.5 Dec	+ 1.5 Dec	− 0.7 Q3	14.2 Nov	14.1
Colombia	+ 3.1 Q3	+11.2 Nov	+ 8.8 Dec	+ 2.3 Nov	+ 0.1 Q2	8.1 Dec	7.6
Mexico	+ 7.1 Q3	+ 4.6 Nov	+ 9.0 Dec	− 8.0 Dec	−16.4 Q3	34.7 Nov	31.7
Peru	+ 0.1 Nov	+ 0.9 Nov**	+ 3.7 Dec	− 0.4 Nov	− 1.6 Q3	8.6 Oct	9.0
Venezuela	+ 3.3 Q3	na	+ 13.4 Dec	+14.4 Jul	+11.8 Q3	14.3 Oct	11.8
Egypt	+ 6.5 2000‡	+ 9.4 2000‡	+ 2.5 Oct	−10.8 Q3	− 0.9 Q3	13.3 Sep	15.9
Israel	+ 7.3 Q3	+ 6.0 Nov	nil Dec	− 6.9 Dec	− 0.7 Q3	23.1 Dec	22.6
South Africa	+ 4.5 Q3	+ 3.6 Nov	+ 7.0 Dec	+ 3.2 Dec	− 0.7 Q3	6.1 Oct	5.9
Turkey	+ 7.4 Q3	+10.5 Nov	+ 39.0 Dec	−27.4 Nov	− 9.2 Oct	18.8 Nov	22.7
Czech Republic	+ 2.2 Q3	+ 4.3 Nov	+ 4.0 Dec	− 3.3 Dec	− 1.9 Q3	13.1 Dec	12.9
Hungary	+ 4.6 Q3	+13.4 Nov	+ 10.1 Dec	− 2.2 Nov	− 0.6 Nov	10.8 Nov	10.9
Poland	+ 2.2 Q4	− 2.2 Dec	+ 8.5 Dec	−11.7 Nov	−11.6 Oct	24.6 Nov	24.5
Russia	+ 7.9 Q4	+ 2.5 Dec	+ 20.2 Dec	+59.8 Nov	+43.8 Q3	24.0 Nov	7.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999‡	+ 4.2 Jun	+ 4.9 Nov	− 2.0 Nov	− 2.5 1999	1.1 Sep	1.5
Saudi Arabia	+ 0.4 1999	na	− 1.0 Oct	+24.9 1999	− 1.7 1999	16.4 Sep	14.1

*Excluding gold, except Singapore; IMF definition. †1999. ‡Year ending June. **New series

Text refers only to the first 25 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.